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Moving Out: Outsourcing is Here to Stay

By George Schildge

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In today's climate of business, CEOs and executives are cautiously optimistic about the economy and their company's future growth. They realize that they still need to market to drive profitable growth and increase the company's value, but the financial strings are being tightened. However, there is a clear growing trend for companies, regardless of size and industry, to outsource (or a term used not to long ago sub-contracting) an element of their business. Why does this trend continue to grow, and how do executives assess their needs? Outsourcing is not a passing fad, but clearly a paradigm shift that can change a business model for the better.

Outsourcing involves the use of resources outside of the organization to perform specific tasks required for the business. However, there are a variety of ways to use these resources, including business process outsourcing and co-sourcing. Business process outsourcing involves the selling off one part of the business to create positive cash flow and probable gains in productivity and quality. Co-sourcing involves retaining part of the service in-house, and off-loading or outsourcing a portion to a third party partner. This is the one we will discuss, and in our case the marketing function. Companies often forget to ask the basic question: What business are we in? Too often the need to perform various functions and to keep a business running does not allow management to step back and ask this question. The answer should bring management to the fundamental product/service that generates revenue for this company.

In the book "Living on the Fault Line" (HarperCollins, 2000) by Geoffrey Moore, described an outsourcing concept. He says, all employees should be focused on core activities—that is, things that contribute to the company's competitive advantage and increase shareholder value. The opposite of core is context—activities that do not contribute to competitive advantage. Context activities should be outsourced.

For example, your head of marketing was hired to develop and coordinate strategies, direct tactics and their implementation, to generate more sales leads by new customers, while maximizing the loyalty and profitability of current customers. That is her "Core" function. However, over time she has developed a talent for public relations and as a result has become the Communication Manager of the

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company. She edits the company web page, makes changes, etc. These responsibilities (those of PR Manager) can be described as "Context."

This is how most companies handle the "Context" with respect to positioning, messaging, and public relations, three tasks for marketing. A similar example could be used for any marketing tasks. It is not their core responsibility and yet, they take it on. The problem with "Context" is that it often takes on a life of its own and begins to obscure what the "Core" should be. The example above was selected because it represents what actually happens for most small to mid-sized companies. What management needs to consider is the effect that "Context" has on productivity, return-on-sales, ROI and the general operation of the business.

Outsourcing allows companies to focus their resources and control their head count. This form of

operations allows the company to hand over full responsibility for the outsourcing function within clearly defined management guidelines and then monitor the performance. When you break down the costs of a full marketing department internally, versus the cost of outsourcing with an external partner, the business case begins to tip in favor of not allowing the "Context" to conceal the "Core." The following elements would be common to build out a high-quality and stable relationship in a typical small organization with gross sales revenues of \$20 million.

Annual Salaries for a full marketing department and programs can cost approximate \$1,350,000 annually vs. \$1,050,000 to outsource the same or better activity.

Consider the example of a high performance marketing partner that offers you results, flexibility, and reduction in staff and overhead. Companies can typically have equal if not better results, while maintaining product and service quality for a fraction of the cost by turning to an expert in sales and marketing. And what is the cost of a bad hire? The commonly referenced cost of a bad hire is 2.5 the times annual salary. In most small to mid-sized organizations, marketing can be outsourced while they focus on the core.

Cost is clearly the most popular reason for outsourcing. However, strategic reasons such as improving company focus on core business and improving quality are next.

Why companies decide to let "Context" take over and drive the business can usually be attributed to lack of information. Many businesses and marketing specialists believe that by keeping everything internal the sales growth is more efficient. It's hard to find sales and marketing experts that have years of experience and are all aligned with the top line growth objectives. Companies who are not using marketing as part of their "Core" focus usually do not have the teams of marketing experts to handle the needs of their marketing. As a result, the "Context" begins to take over leaving less and less room for the "Core." So, is it worth "controlling" all of your marketing functions? Is this an area of your business that is core to your success? Probably not.

It is important for a company to focus on the things that add value and make it competitive. If you build software, stick to doing those things that help you to build better software, and outsource all those things that can be outsourced. The more focus you place in "context" areas, the harder it becomes for you to do your "Core" well. When you take into account the cost of what it really takes to do it right, the business case cannot be ignored.

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Outsourcing Your Packaging Is A Strategic Option

By Thomas Bacon

In a recent article in "Investors Business Daily", it was revealed that outsourcing has become more than just an easy way to cut costs. It has become a strategic tool that gives businesses flexibility and access to skilled personnel.

Since the advent of the Internet, and the rush to get online, companies have turned to outside professionals for services and solutions. Hiring a full-time IT technician is costly and not an efficient use of resources. Outsourcing allows companies to focus on their core businesses while gaining access to skilled labor when they need it.

* Outsourcing is a way to boost revenue * Outsourcing is a way to cut costs * Outsourcing eases labor shortages * Outsourcing cuts payroll costs * Outsourcing allows companies to focus on core competencies * Outsourcing reduces or eliminates some capital expenditures

Outsourcing also allows businesses to change their corporate culture. If companies have renegade groups that are costly, ineffective, or difficult to manage, that group can be outsourced. This enables employers to change their workplace environment on-the-fly.

Still, most companies outsource projects in order to reduce costs and to gain outside expertise. A survey by "The Conference Board" indicated the following "Top-10" outsourcing objectives (numbers are approximate):

* Reduce Costs (40%) * Access to Expertise (38%) * Improve Internal Service (37%) * Focus on Core Business (34%) * Maximize Resources (27%) * Internal Flexibility (25%) * Improve External Service (24%) * Changing Customer Needs (20%) * World Class Standards (15%) * Continuous Improvement (15%)

When deciding to outsource your packaging, the real litmus test is whether outsourcing adds value. Does it really reduce costs? Is the investment in in-house training and machinery too great? Does outsourcing a service give you access to people with greater skill sets or companies with more resources available to them?

Bottom line: outsourcing your packaging service needs is about more than just saving money. It is a strategic option for savvy businesses and entrepreneurs.

Thomas Bacon has been involved in the contract packaging industry for more than 35 years. He is an author, speaker and owner of Aaron Thomas Company, Inc., a packaging service company with

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