



Society for Human Resource Management

WHY OUTSOURCE?

Human Resource Outsourcing and Middle Market Companies

Mid-market companies have often been reluctant to relinquish control of internal processes to outside firms that might not fully understand their operations or industries. And fewer outsourcing vendors have pursued middle-market clients, in part because it's difficult to justify the costs involved in delivering services to smaller companies.

Times are changing and the latest evolution in business process outsourcing (BPO) includes a focus on the middle market. Smaller businesses are finding outsourcing to be much more accessible and are turning to

service providers for a growing number of strategic operations.

“For many of these mid-sized organizations, the outsourcing of business processes is proving to be an effective way to cut operating costs and increase efficiencies,” says Frank Casale, founder and CEO of The Outsourcing Institute. “In a lot of industries, middle-

"Cost savings from reduced overhead and efficiency gains can range from 10% to 40%."

market companies are forced to compete with much larger enterprises. By outsourcing some of their more costly business processes, smaller companies are able to level the playing field.”



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The market for BPO among small and medium-sized businesses is estimated at more than \$15 billion in the U.S. alone, according to a research report by Gartner Inc.

The report showed that back-office enterprise services are the most popular processes to outsource, with 73 percent of mid-size businesses outsourcing or planning to outsource some portion of those services. HR outsourcing topped the list for current or planned outsourcing activity, Gartner says.

According to research in The Outsourcing Institute's Sixth Annual Outsourcing Index—which includes data from about 1,900 members—small and mid-size companies are looking to outsource tasks as varied as logistics, real estate/facilities management, finance, accounting and HR.

Many of the same benefits that the largest enterprises have enjoyed through BPO can apply to mid-market companies as well. These include reduced costs of administering business functions, greater efficiencies in delivering services and improved flow of

information throughout the enterprise.

For many companies, the cost savings alone—through reduced overhead and paperwork and other efficiency gains—can range from 10 percent to 40 percent.

Outsourcing frees up senior executives and departments at middle-market companies to focus on more strategic, revenue-generating areas of the business.

There are benefits of BPO that are unique to mid-size companies. Probably the most significant is that mid-market companies can gain access to larger economies of scale when it comes to technology deployment.

“Many mid-size companies do not have the resources to have implemented larger enterprise resource planning (ERP) solutions,” says Scott Golas, senior vice president and chief strategy officer of Aon International. “By outsourcing their processes, they immediately gain access to best-of-breed technology.”

By Bob Violino, August 2005



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