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Not Fit For Print Are You A Closet Outsourcer?

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Some years ago when “Buy America” was all the rage and we were being encouraged by the likes of **Lee Iacoca** not to buy Japanese, my own hypocrisy was exposed. I’m a pretty good flag waver and thought I was complying because I had just purchased an American made car. However, someone far more observant than I asked me about my watch. Was I going to give up my Seiko watch? How about my shoes? They, it turns out, were mostly assembled in Poland. Imagine my shock when I found out that even Chrysler’s little American car was 65% Japanese content. Being a purist is rough business these days and that thought led me to wonder if all the hub-bub about outsourcing versus the purity of in house work might not also be as complicated an issue.

A brief visit back to **Henry David Thoreau** and life at Walden Pond confirmed that living the simple and totally self-sufficient life wasn’t in the cards for me. However, it did get me to thinking about the recent highly publicized divorce of a high-ranking General Electric executive and the award given to his wife for in house services. I’ll bet anything he has wondered whether he should have outsourced most of those services and how much he could have saved. Of course, he could have been outsourcing some of them all along while still keeping the really important stuff under his own direction internally. No! I don’t mean what you are probably thinking. I’m talking about outsourcing the house cleaning and lawn mowing, for example. Or having the laundry picked up and maybe someone doing the grocery shopping when his in house service provider had a conflict and needed to provide dinner escort services. In the end, the judge decided that the escort service was one of the most valuable to the executive and the ruling didn’t include any references to any after dinner activities that an outsourcing escort might be persuaded to include.

What is the Price? The Cost? The Value?

The key to all this stuff is the world valuable. One of the most misunderstood concepts in decision-making is pricing. For example, I don’t usually outsource the washing of my car. I do it in house and part of the reason is the price of a car wash. Now some people say, don’t you mean the cost of a car wash? Nope. I’m talking about the price I have to pay and not what the cost is to provide it to me. I have to drive about four miles to the nearest car wash so that means at the national average for operating a car I will pay a price of \$2.40 for the round trip. Once there, I will be offered a choice of machine wash or hand wash and since I’d do a hand wash at home I want at least the same job I’d do in house. Hand wash is \$6.50 plus the \$2.40 or a total of \$8.90 out of my pocket. Of course, they might do a better job and it is true that it will take about the same amount of time in total, but

In 1971-72, McGraw-Hill contracted with author Clifford Irving for a book on the reclusive billionaire, Howard Hughes. The book was found to be fraudulent and Irving went to prison for it. In 1992, when McGraw-Hill moved into its new skyscraper quarters in New York City, the McGraw-Hill building sign identified the first floor tenant: “The Irving Trust Company.”

at least I won’t have to do all the work. By the way, the \$8.90 is after tax money so I likely had to earn \$12.00 to have the \$8.90 to pay someone else to do the work while I stand around producing nothing. If I had been truly smart, I would have brought my laptop and done some work for pay while I was there waiting. So, now I am confronted with several applications of price, cost and value. The total price I pay approaches \$12.00 for this \$6.50 wash plus about an hour of my time driving and waiting. Note, the price I paid to the car wash and the total price I pay are not the same. In house my cost would be just the raw materials, soap, water and laundry detergent for the towels and whatever value I place on my labor. Since I don’t have to consider the traffic, the hours the car wash is open or the attitudes of the employees, I can schedule this project myself and do it when I want. So the cost to me at first seems lower than the price I might pay to outsource. But what if the bucket had a hole in it or the hose springs a leak or it rains right after and in house doesn’t have a free wash guarantee? And what happens if a real job comes along and someone wants to pay me serious money to consult? Now if I wash the car to reduce my negative cash flow then it could really cost me money since I’d be trading car wash wages for consulting wages. Money laundering at its worst.

The Solution

Now that I know the price of each alternative, the various costs to me, I just have to establish value and I’ll be on my way to making intelligent choices about outsourcing. I’d like to create a model to apply to all my choices except the yard. My macho neighbors and I are in such a contest over the perfect lawn that no landscaper has a prayer of getting my outsourcing business. It is a matter of pride and dignity that my own special, and secret I might add, way of doing things is responsible for my success with the elusive and hard to grow St. Augustine grass. No outsider could ever understand. A librarian friend pointed out similarities in cataloging philosophy but that can’t be true.

All I need to understand seems to be that the cost to provide a service depends on which provider is being used. If it is me, the cost is one amount, and if it is the car wash company, I have to add my total costs together and add it to the price they charge me, consider my tax situation and then add it all up. The price they charge isn’t their cost since they have to make a profit. They have to base their price on market conditions, competition, the quality and variety of their offerings, and the overall value the customer places on their service and, of course, the self service in house option. The company’s cost might be \$4.00, my cost \$12.00, and one of their employees might be willing to moonlight and come to my house and wash for \$5.00 as an independent contractor in which case my after tax cost is down to about \$7.00. Of course, if my car was only used for business and I can deduct the price that I pay for a wash, then I must outsource the work because I get no deduction for doing it in house. My labor is only of value to the government if it brings in cash, not if it saves money.

I’m glad if I cleared the air for anyone on this challenging issue of outsourcing. I, in turn, am considering calling that GE exec and seeing if he has anything to add as I search for a perfect financial model. Failing that, maybe I’ll sell the car, plant weeds in the yard, and go fishing. 🐟