



## Creative Business

BY MICHAEL J. MCDERMOTT

### Sending 'In-House' Functions Offsite

WITH TECHNOLOGY AND SERVICE, A SMALL BUSINESS MANAGES TRADITIONAL 'BACK-OFFICE' JOBS.



Outsourcing — the practice of contracting out an organization's non-core functions to specialists in those fields — stands as one of the most important trends in business at the start of the 21st century. As outsourcing expert Dr. James Brian Quinn, a professor at Dartmouth College's Amos Tuck School, puts it,

"Outsourcing increases value and lowers costs for companies that use it strategically."

To date, outsourcing has been primarily a big-company phenomenon, enthusiastically embraced by Fortune 500 and Global 1000 firms. Although a significant and growing body of evidence suggests that outsourcing's

benefits can also accrue to mid-sized and even smaller businesses, selling such companies on its potential can be a daunting task. Nonetheless, that is a challenge that Lisa and Ralph Wagner, founders and co-owners of CoEfficient Back Office Solutions, are meeting on a regular basis.

CoEfficient Back Office Solutions, Inc. provides its clients with a strategic alternative to running their own back office accounting operations, such as accounts payable and accounts receivable. The benefits of such an arrangement to CoEfficient clients are considerable, the Wagners say. They include:

- Cost savings on back-office accounting operations of 25 to 55 percent on an annualized basis.
- Elimination of the headaches involved in recruiting, hiring, and retaining motivated, quality personnel for those functions.
- Greater management control of the outsourced functions through real-time access to mission-critical business information and reporting.
- Risk mitigation and cost avoidance.
- Improved ability of management to focus on the company's core business strategy.

With so many advantages to be reaped from outsourcing non-core functions, what objections might a business decision-maker possibly raise? Most frequently, it is the concern that management will lose control over the process and risk exposure of sensitive internal data, Ralph Wagner says.

"The perception of losing management control is important. Most chief financial officers at companies of this size are used to having the people who handle their accounting functions close at hand. Outsourcing moves the performance of day-to-day accounting tasks offsite, presenting a very different paradigm," he says. "We have to help prospective clients understand that this actually results in greater management control. Then the roadblock quickly disappears."

The Wagners' strategy for dealing with objections is

to arrive at a sales call well-versed in the way a prospective client's current processes work — and armed with an effective presentation that includes a real-time workflow demonstration defining the advantages of CoEfficient's unique imaging and workflow solution.

"We go into great detail in our preliminary research to learn as much as possible about a prospective client's back office functions so we know exactly what to show them," Lisa Wagner says. "Most companies have a process in place that takes 30 to 45 days before an invoice is even available for review. With our system, they can have data in front of them within 24 hours, which often enables them to benefit from vendors' prompt-payment discounts that they could not take advantage of before."

**Lesson: By preparing carefully and anticipating a prospect's likely objections, you can demonstrate that perceived drawbacks are really advantages.**

The best known names in outsourcing are large, well-established companies, such as Accenture, EDS and ADP. In contrast, CoEfficient is a small firm that has been in business for just five years, and those are issues Ralph and Lisa Wagner sometimes have to address with clients.

"Prospective clients do sometimes want to know how big we are and how long we've been in business," Ralph says. "Right now, we have about 35 clients, and we provide a variety of different accounting and financial services to them. However, we are starting to make inroads with Fortune 1000 companies and larger mid-market firms, and after just five years in business, we have a very strong balance sheet."

Lisa points out that while outsourcing of functions such as payroll and human resources administration are well-established business practices, outsourcing of the services their company provides is still in the

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early adoption phase. CoEfficient's solid performance through its short history helps to instill confidence in many prospective clients.

Further boosting CoEfficient's credibility are strategic alliances with well known partners such as BDO Seidman, a leading accounting and consulting firm. CoEfficient has an exclusive agreement with BDO Seidman to market its services to the big accounting firm's client base.

Credibility is an important issue for CoEfficient because it is targeting C-level (chief executive, chief financial officer, etc.) decision-makers in four traditionally conservative industries with its marketing efforts. It focuses on manufacturing, distribution, retail and property management companies with annual sales of \$100 million to \$750 million.

"We chose those four industries because their labor costs are generally high, and we can demonstrate the most dramatic cost benefits in those segments," Ralph says. Since those four industries are found in heavy concentrations on both coasts, CoEfficient concentrates its marketing efforts there and maintains offices in both California and New Jersey. At the same time, it is harnessing technology to build a nationwide client base through its WebEx demonstration process.

**Lesson: Being able to demonstrate competence and reliability is important to instill confidence in prospective clients, but the added imprimatur of a well known and respected partner can help tip the scales in your favor.**

For many years, saving money has been the primary driver behind a company's decision to outsource, and the cost benefit remains an important consideration in most cases. As businesses' use of outsourcing becomes more strategic, however, its other benefits are increasing in stature.

The No. 1 reason given for outsourcing in the Outsourcing Institute's annual survey last year was "to improve company focus." That marked the first time in the five years the organization has conducted the survey that a consideration other than reducing costs has topped the list. The Wagners' business



Business and marriage partners Ralph and Lisa Wagner.

plan puts CoEfficient in the optimal position to capitalize on that emerging trend.

"The clients we are targeting seek to outsource specific business processes such as accounting in order to attain a higher level of quality services and to gain access to real-time information that lets them make better-informed management decisions," Ralph says. "Providing our clients with greater management control over the accounts payable process and quick access to real-time data for better decision-making is the foundation on which our business is built."

To sustain the high level of service quality critical to that approach, the Wagners organize their customer delivery team by client, which allows them to quickly learn the unique aspects of each client's business. "From account management to data entry, the team servicing each client is consistent," Lisa says. "We are truly partners with each client. Their goals are our goals."

Not surprisingly, teamwork and partnering are qualities that play important roles in other aspects of the Wagners' lives as well. With two sons, ages 13 and 16, they have become adept at leveraging each other's strengths in their family life in much the same way they rely on each other to drive their business success.

"Our boys are our priority, and we cherish the opportunity to work together to achieve our shared goals and provide financial security for our family," says Lisa.

“In both our business and personal lives, we strive to keep a clear perspective of what is truly important. We try never to lose sight of that,” Ralph adds.

By the unrealistic standards of the 1990s’ technology boom (now gone bust), CoEfficient’s growth has been modest, but that is by design. Currently, the company is billing between \$3.5 million and \$4 million a year, but the Wagners project annual volume in the \$10 million to \$20 million range five years out.

“We have and will continue to run CoEfficient without any outside venture capital in order to maintain control over decisions that drive the quality of our product and world-class customer service to our clients,” Ralph says. “That decision has allowed us to focus our investments on delivering the most innovative workflow and imaging-based accounts payable management services in the marketplace today.”

For the Wagners, it comes down to controlling their own destiny. They believe the business model they have developed for CoEfficient Back Office Solutions is the right product at the right time, and the evidence to date bears them out. Opting for controlled, internally-financed growth over outside venture capital guarantees them the independence they need to keep making

the decisions they deem to be in the best long-term interests of achieving their goals — as well as those of their clients.

**Lesson: Starting and growing a business without outside financing can provide a great degree of independence, but you need to have a realistic multi-year financial and sales plan in place to make it work.**

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#### Do You Know a ‘Creative Business’?

The businesspeople profiled in this column are Northwestern Mutual Financial Network customers. (The Wagner’s financial representative is Todd Krebs.) If you have a candidate for the column, please contact Catherine O’Neill Grace, Editor of Creative Living, at [cgrace@forbes.com](mailto:cgrace@forbes.com) or 919-960-5003.

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