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Outsourcing vs In-house stocktaking and auditing

The Pros & Cons

The debate

The age old debate about **outsourcing** versus in-house stocktaking and auditing still rages on. In recent years there has been a noticeable move by hospitality operators towards keeping these services in-house. In particular, this has been due to the introduction of modern software programmes on the market.

In-house software solutions have certainly opened up the world for operators to manage many aspects of stock control and compliance internally. But, as with anything, there is always a balance to be had. There are in fact a number of variables that determine whether or not in-house control is the best and most complete solution for your business.

So what are the real pros and cons of keeping stocktaking and auditing in-house? And how can you be sure you've chosen the best systems of control?

These are complicated questions to answer. In this guide we'll explore some key topics:

- Is in-house more cost-effective than outsourced?
- Are in-house staff better informed to spot internal problems?
- Are in-house staff better able to follow up and discipline?
- Are in-house teams better equipped operationally speaking?

We'll do our best to present all the facts, whilst of course staying objective in the process. Knowing that we are a third party supplier of stocktaking and auditing might, in the first instance, make you a bit dubious about hearing our opinion on the matter. But as they say, there are always two sides to a story and hopefully our version will give you a well-rounded understanding on the debate.



A Summary of the Debate

Is in-house more cost-effective than outsourced?
There are no hard and fast rules. Generally we would recommend
<5 sites - in-house can be more cost effective
>5 sites - outsourced is generally more cost effective
It's a bit more complicated than this though, numerous factors should sway your decision making. We've produced a formula to help you work it out yourself. Go to page 4-7 to make a more informed decision.

Are in-house staff better informed to spot problems?
It can be a real benefit for staff to have internal knowledge of policies and procedures, as well as previous experience at every site.
However, effectiveness of in-house staff is challenged if the auditors in question don't have an adequate level of work experience. In-house auditing can also breed familiarity and present a real danger on objectivity. External auditors tend to be trained in being objective, are highly skilled and experienced, knowing exactly what they're looking for.

Are in-house staff better able to follow up and discipline?
This really depends upon your operational reporting structures, or your agreements with external suppliers regarding follow-up procedures. Internal knowledge of personalities and politics can be helpful in the process of disciplining, but it can also result in filtered reporting. Outsourced reporting on the other hand will ensure results are presented to the top of the business unfiltered.

Are in-house teams better equipped operationally speaking?
In-house teams are often assumed to be able to be more reactive to ad-hoc business needs and in particular to conduct investigations when required. However, changing internal auditors' tasks at the last minute can have an impact on their delivery of other auditing tasks. External auditing firms tend to have a larger and more flexible network that can respond in a quicker and more cost-effective way, often thanks to their office support staff.

Read on to delve a bit deeper into the pros & cons!

Question I.

Is in-house more cost-effective than outsourced?

This is the most common reason for operators to move stocktaking and compliance in-house. It is also one of the hardest topics in the debate, because there are so many factors involved. So do bear with us as we explain the pro and counter arguments, before drawing your conclusions. But first let's look at all the factors involved:

The factors

Particularly as businesses scale up and grow in their number of sites, it's often assumed that going in-house is a great cost-saving activity. But the reality is that it depends on what combination of variables your business operates with.

These include:

Primary factors:

- The number of sites in your business
- The size of your typical operation (determining the length of time required on site)
- The frequency of your control audits
- How many co-worker you're looking to employ to complete the job
- How much you intend to pay the person(s) you're looking to employ
- The external stocktaking company you're comparing your in-house costs with

Secondary factors:

- The geographical spread and expansion of your business
- What lifecycle stage your business is in (is it growing, or has it matured?)
- How you define the role of the person(s) you're looking to employ

For the mathematicians amongst you, we've produced a helpful equation that will give you a top-line yearly review by considering each of the primary factors. So if you currently employ, or are looking to employ stocktakers internally you'll need this formula: If your result is negative, you'll know just how much money you could actually be saving if you decided to outsource your auditing or stocktaking.

* Auditor annual salary + Travel + Accommodation + Company contribution (i.e. NI, company car, benefits etc.)

** Determined by size of operation

*** I.e. monthly stocktakes = 12

$$\frac{\text{Number of auditors} \times \text{Costs}^*}{\text{External stocktake fee}^{**}} \times \text{Frequency of stocktakes}^{***} \times \text{Number of sites}$$

It really is important to consider the secondary factors too though. The problem with these is that they are much more ambiguous. The general rule would be that the wider the spread of your sites, the less lucrative in-house stocktaking or auditing becomes.

If your business is still considering significant growth then this should also swing decision making towards external. However, if you intend to give your internal auditors additional responsibilities, by combining their compliance role with a stocktaking role for example, or by giving them other auditing tasks, such as health and safety, then this could of course impact, the ratio of the salary costs.

Pros

Going internal could be cost-effective if you run more than 5 sites.
If you have more than 5 sites (assuming a minimum frequency of 6 audits or 6 stocktakes a year per site and a portfolio of sites that are within reasonable geographical distance from each other) then choosing a single internal auditor or stocktaker is more likely to pertain to a cost effective solution.

Giving auditors additional responsibilities could make it cost effective for less than 5 sites too.
If you have less than 5 sites, you might get around the cost issue by giving this member of staff extra responsibilities, which could include health and safety, operation managerial duties etc.

Cons

However, when considering all the costs associated with employing internally, it's not always quite as cost effective as it may seem.
For multi-sites that cover the entire country in particular, in-house can rarely be considered more cost effective than external stocktaking. The salary and expenses for travel and accommodation of internal stocktakers and auditors seldom turn out cheaper than for an external stocktaker or auditor that is paid for a one-off service (expenses included).

Excluding additional employee costs, such as NI and company benefits, such as company cars, in final calculations can cost you dearly. Without these included, a business might be under the illusion that in-house teams are by definition more cost effective. However, in our experience, we have rarely found in-house stocktaking and auditing to be more cost effective than services provided by a third-party supplier.

Costs are of course not the only reason operators opt for in-house of course.
We'll explore a couple more common arguments on the matter on the next pages.

Question II.

Are in-house staff better informed to spot internal problems?

Pros

No one knows the business better than those who work or have worked in it.
Not many people can argue with this fact. Especially promoting personnel from within your food and beverage operation, into internal auditing positions, could be a smart move. Knowing the ins and outs of a business will most definitely better inform those auditors to spot problems and have the adequate background experience to understand how to resolve them.

Internal auditors know the policies and procedures.
It's a serios pro for auditors to have the time to delve into and specialise in the policies and procedures set out by the business. Working day in day out with these same standards will undoubtedly result in a firm and robust footing regarding all required compliance and stocktaking elements sites have to adhere to. No external auditor could acquire quite the same level of knowledge in these areas.

Internal auditors are well versed in the training manuals and company best practices.
The training side is equally important. Businesses deal with training in their own ways and knowing these methods will ensure that any activities or problems are dealt with in the right way. Ultimately it gives the internal auditor the know-how and ability to show any unit where they have gone wrong and how they could improve practices.

An internal auditor already has all the necessary backround information for each site.
Before attending site, they will already understand the context that frames the results each site will receive at the end of their visit. They know exactly what issues a site has had, having completed the audit at that very site previously. It also means that they're more likely to get to the root of issues quicker than an external auditor would. And, as they say, time is money.



External Auditors tend to have far more knowledge of the internal workings of hospitality businesses than they're given credit for.
Hospitality operators tend to view external stocktakers and auditors as ‘outsiders’. Yet, even though external stocktakers and auditors might not know your operation as in-depth as an internal auditor could, they certainly have enough understanding of the internal workings of hospitality businesses.

Most, if not all stocktakers and auditors (in Venners) have performed in senior management roles prior to joining the business. Plus, at the end of the day, a stocktaker’s and auditor’s responsibilities are much more about quick checks and quick maths, than they are about internal processes alone.

Even so, an external stocktaker or auditor will normally dedicate significant time to learning the internal processes and parameters of the sites they visit – familiarising themselves with countless instructions. Besides this, they will have most likely worked with the exact same systems as yours at other jobs they’ve attended.

Cons

Internal teams can lose objectivity and drive when presented with the same scene day in day out.
Employing in-house could be a dangerous move. Internal teams can become so used to how things run that they lose an element of objectivity and drive when reviewing the same types of results every month.

The effectiveness of internal auditing and stocktaking teams relies on previous work experience.
The idea of benchmarking results against others in the industry also becomes pretty much impossible, unless your in-house stocktakers and auditors themselves have had years of prior experience carrying out a similar role.

External auditors (at Venners) will have gone through industry leading BII approved, as well as on-the-job training by other expert auditors. They also often have years of experience stocktaking or auditing across many of your competitor businesses. They really know what good looks like and can translate the learnings they've seen from other sites into useful recommendations for your sites too. Their insight into how your business works is therefore really much better informed than some may give them credit for.

Internal auditing can breed familiarity and hinder possible resolutions
When sites are producing the same results over and over again, internal auditors may be inclined to start accepting these reoccurring issues as the "norm". For example in stocktaking, if a unit is not achieving its forecasted GP%, despite the best efforts of the internal stocktaker to train and resolve the issue, that same individual may simply stop worrying about or flagging up poor performance at that particular site, instead assuming that the set target is too high for that unit to achieve. This can result in the dilution of the audit results and the effectiveness of auditing in general, as repeat issues are accepted as normal and therefore not dealt with.

External auditors like those from Venners will always start each audit afresh, monitoring and re-imposing any issues to the site. They simply won't give up, giving further advice to rectify anything that doesn't hit the right standard. They'll also be sure to notify the Senior Management of continuous un-resolved issues, that may actually be having a major impact on overall performance.

Not downplaying certain issues is also vital because every repeat issue should feed into further extensive data analysis over time, becoming the basis for new training programmes or maintenance projects. This leads us nicely to the next question.

Question III.

Are in-house staff better able to follow up and discipline?

Pros

Internal Auditors are able to discipline internal staff should the need arise, whereas an external auditor would not.
It's true. Internal auditors have much more authority to properly follow up any problems that were identified during an audit. This makes it a great solution to alleviating your already overworked area and regional managers and supervisors from this extra responsibility. You can also be certain that this way, serious problems don't get swept under the carpet, but instead are followed up in good time. An external stocktaker can only give recommendations and advice and would rely on internal management staff to actually follow up any issues.

Internal auditors understand the internal politics and personalities of a business.
As with any job, it's an art to know how to meander the internal politics within a business. Knowing the right people and their personalities can help towards working out the best solutions to problems. In particular, when dealing with serious issues such as non-compliance or theft, there is often a tendency for staff members to cast blame or to feel great stress when they're in trouble. Having the necessary internal knowledge to deal with those sort of situations can prove really beneficial. It is often only possible when someone has had the chance to embed themselves into a business culture for them to understand these nuances. From there they can guide and steer others to perform better.

Internal auditors can report direct to the Board.
Most businesses that have in-house auditing to control performance of their sites ensure that there is an open line of communication directly to the Board. This ensures that on-the-ground staff maintain the right level of respect and keep a sense of urgency to resolve issues within a reasonable timeframe, for fear of repercussions.



Cons

It really depends on how your internal structure and reporting procedures are set up. There is one issue with internal auditors disciplining site staff members. It begs the questions of: “has this issue, one - been resolved that day; and two - have senior management or directors been made aware of the issues encountered at the unit?”. If internal teams are left to manage everything in a self-sufficient way, then their effect on bringing the right level of control in the business is impaired.

Venners auditors will always without bias, report findings within the written operational report and offer sensible and constructive advice to remedy the issues found on that very same day. External auditors usually follow strict reporting structures that mean the results of the audits reach the top of a company ‘unfiltered’. Venners for example can and does report to client Board members before leaving site, though it should be noted that the ideal format we have come across is that a single senior director maintains oversight and responsibility.

Being aware of serious and recurring situations at the top of a business is necessary. It’s only from this position that a disciplinary or training session can be applied effectively. The internal auditor often ‘deals with matters’ during the audit so that the true level of performance isn’t reflected or reported on.

Internal politics will always have a negative effect on internal auditing functions. Dealing with internal politics can actually be a hinderance to the function of an audit, which is ultimately to improve performance. In an attempt to appease difficult individuals internal auditing teams can begin to let things slip. Additionally, their own personal biases over time towards certain individuals can result in subjective audit results.

Although external auditors are still human and can relate to visible problems (it’s why Venners make it a prerequisite to employ from within the industry), they are trained in objectivity and geared towards answering the questions ‘without fear or favour’, which gives a true flavour of performance. It’s also the reason why as a company, Venners vary the auditors that visit sites, so that they don’t become overly familiar.

Question IV.

Are in-house teams better equipped operationally speaking?

Pros

Internal auditors can visit sites at short notice.
As a business you decide what your internal auditors spend their time on. So, if the need arises to deal with any serious incident you can allocate your internal auditor to any given site whenever necessary. No need to wait for confirmation in terms of availability like you would in the case of an external auditor.

Internal auditors can conduct investigations.
Similarly, internal auditors have all the experience and expertise about any given site's history to conduct further investigations. This can be really useful if results are not as positive as they should be and you need to find out why. It's your perogative as a business to allocate your staff to certain sites for longer and it won't cost you an additional fee.

Cons

External auditors are made for fast-response.
In actual fact, external companies like Venners employ a large and flexible network of auditors across the entire nation. It means that they can often respond just as quickly, if not quicker to last minute auditing requirements you might have. Having auditors within reasonable distance of any of your sites across the UK, Venners can perform emergency audits with little notice required. Plus you won't even have to deal with the administrational elements of rescheduling any previously booked accommodation or transport, or making your other sites aware that your internal auditor has been delayed in getting to their site for a number of days. In other words, it means we have the capacity to carry on the day-to-day auditing, which can be neglected when the internal auditor is away. Venners offers the most reactive solution for short notice or emergency auditing needs.

The right external company can offer expert investigations too.
At Venners we have an entire team of consultants that are experienced in solving the complex or hidden issues. Thanks to their many years in the industry it's very unlikely that the problems your site might be experiencing isn't something they've seen before. From a much more objective position, our consultants can pinpoint deep seated issues like internal theft that would be much more difficult to challenge from an internal perspective.

It's easier to hold external auditors to account
You're within your right to hold external auditors to account for their performance. At the end of the day, that's what you pay them for. If your internal auditor hasn't been delivering the quality or level of work you expect of them it can sometimes be more difficult to address this than with an external supplier.

External companies have the specialist software you need
Being experts in their field, you can be sure that external stocktaking or auditing software can deal with all the complex requirements of the task at hand. No need to invest in stocktaking or auditing add-ons. The great thing about outsourcing is that these sort of services come as part of the package.

External companies tend to be able to provide additional support to your sites when needed
With office teams and customer service phone lines, you can be sure that both your sites and those at management level are receiving the real-time support they need to improve their performance. Most internal auditors work solo or in small teams and due to their capacity this can mean that they're unable to provide the extra support that is often needed to really improve overall performance

Is outsourcing the way forward for your business? Contact us today for a no-obligation quote.

Visit **venners.com/contact**

Call us now on **01279 620 820**

Or send us a quick email: **enquiries@venners.com**