Opportunity Costs

Opportunity costs are the possible advantages that a person, investor, or business forgoes while deciding between two options. Opportunity costs are by definition invisible, making it simple to ignore them. Making smarter decisions requires an understanding of the possible opportunities lost when a company or person selects one investment over another.

Considering Opportunity In the realm of business and finance, cost is important. It reveals the reasoning behind the financial decisions made in relation to the other accessible possibilities.

Key Factors of Opportunity Cost is Price, Time and Effort

A business cash flow is one of the most critical factors in determining the long-term success of the business. It is also a core part of a business's survival.
To survive, a business needs to produce enough cash flow from its operations so that it can pay its bills, recoup its investors' money, and grow.
Although generating income is one of the most important aspects of a business, revenue is not the only thing that makes it work. Maintaining a healthy balance sheet and maximising working capital means minimising outgoings by reducing operating costs. Businesses must therefore maintain cash flow cautiously.

"Do everything yourself. Don't pay someone else to do things you can do for free."

On the surface, that seems like good advice, but the reason why people shy away from hiring cleaners or decorators is the same as why entrepreneurs are sucked into running their business on a daily basis rather than performing at their best.

Do you think outsourcing your finance and accounts department is more expensive or even risky vs keeping them in-house?

Here we will explore the theory of opportunity cost to get to the bottom of the question.

When deciding, opportunity cost is a balance between the sacrifices made and the gains achieved. Recognizing that when you say "yes" to something, you must say "no" to something else is the key.

A financial opportunity cost can be monetized, but other opportunity costs, such as the value of free time, cannot.

Opportunity costs can be evaluated by thinking about them logically rather than mathematically. Consider opportunity costs as a ratio between what you gain and what you lose.

Take bookkeeping as an example. Before using our outsourced bookkeeping services, many of our clients handled their own bookkeeping. You can save on outsourcing costs if you put in 10 hours per week of your own bookkeeping. In those ten hours, you may find and reply to an invitation to tender for a new contract, which you then happen to win, or you could accomplish something concrete that yields an explicit profit. Therefore, it is very clear that the opportunity cost of not outsourcing your bookkeeping is equal to the cost of outsourcing per hour divided by the cost of outsourcing less the cost of not getting the new contract.

As a result, in this case, refusing to spend money on outsourcing will hurt your cashflow.

You have the right to choose what you do with your time, and the effects on you and your business may vary greatly.

In place of relying on one key finance individual and experiencing continuity issues if they are absent or on leave, outsourcing gives you access to a team of professionals who can ensure that your financial requirements are always met.

In addition, outsourcing gives you access to tax specialists, capital allowances, capital gains tax, R&D tax relief, and finance raising, acquisition and disposal specialists.

The most important aspect is that we allow you to focus on your core business while providing you with all the major financial KPIs to guide your decision making.

It's important to know what your strengths and weaknesses are, and when to delegate

Let's face it, we all have our specialties, strengths, and weaknesses. A realistic and practical person knows where their weaknesses are and where their time is best spent.

Once acknowledged, they can either strive to improve in genuine areas of interest or outsource through a complementary relationship that benefits both parties.

You should focus on your strengths and delegate/outsource weaknesses to those who are best able to handle them.

There are professionals out there whose strengths are your weakness, they can become a good fit and an extension to your business team.

At Expert Accounting and Finance, we believe that outsourcing is the most efficient and cost-effective way for businesses to free up their time and resources for doing what they do best.