

Contract Security Vs. In-House

It appears there has been a paradigm shift in the thinking of many corporations, Fortune 500 companies and smaller firms alike. This shift is to “core competency” and involves outsourcing support functions not associated with a company’s core business. This move towards core competency is especially prevalent in the area of personnel-related support functions, which includes security.

Why is this shift occurring? There are two primary reasons.

1) Increase in Competition. With more and more companies competing for market share and doing so with enhanced technology, it is imperative to have a workforce that is almost exclusively focused on improving a company’s core business offering. For example, a computer chip company probably won’t improve its position in the computer chip market due to the efforts of its in-house security officers. Top managers are deciding to utilize reputable contract security firms to be their security experts so they can focus their personnel on being computer chip experts.

2) Increased Cost/Liability. Payroll taxes and fringe benefits have skyrocketed to a national average of 48%. As our society becomes more and more litigious, the risk of liability from in-house personnel-related issues is steadily increasing. Areas of risk to consider include: Workers Compensation, unemployment, discrimination, sexual harassment and general liability. Lawsuits are costly and time-consuming. Due to this ever-increasing expense and risk of greater hidden cost, companies are choosing to protect themselves by outsourcing functions like security.

What Stops Some Outsourcing Conversions?

Many Directors of Security fear that switching to a contract provider will mean they are of decreased value to their company, and could potentially lose their jobs. However, a shift to contract security can have the opposite effect. Security Directors who outsource their security program often find they no longer have to spend long hours dealing with the day-to-day minutiae of managing security officers, and instead, they are able to offer their skills in the more prominent and visible areas of security consulting and analysis. This increases their value to the company while decreasing their security headaches, as they can defer security personnel functions to the contract security firm’s management team.

The other cause for hesitation by some companies to switch to contract security is the perception of a lack of quality security companies. While finding a reputable firm in the massive sea of the security industry can be a challenge, there are some companies who operate on a very high level. These are companies that conduct extensive background checks and have

a rigorous process for personnel selection. Quality companies also offer competitive benefits and wages and benchmark-setting training and employee development programs. In addition, switching to contract security does not mean losing your well-established security force, contract companies will usually retain as much of the existing staff as you desire.

What Does It Cost?

In most cases, the cost of an outsourced security program is comparable to a company's in-house budget. However, the additional protection provided, combined with the elimination of other hidden costs actually serves to reduce a company's long-term expense. Additional costs can include overtime wages, uniforms, recruiting and background checking expenses, training, administration personnel for payroll services and depreciation of equipment.

The form below will help you analyze the actual costs of your security program.

Uniformed Security Officers Cost Comparison

DIRECT LABOR COST:

	Total
A. Average Hourly Pay Rate (Security Officers & Supervisors) \$_____ X total hours per week _____	\$ _____
B. Overtime Premium Rate (50% of above pay rate) \$_____ X total overtime hours per week _____	\$ _____
C. Total Direct Pay Per Week \$_____ X 52 weeks	\$ _____

ADDITIONAL LABOR COST: (Estimate on Per Year Basis)

D. Training Time and Break-In Costs (estimate \$200 per employee per year)	\$ 200
E. Vacation Pay	\$ _____
F. Paid Holidays	\$ _____
G. Paid Sick Leave	\$ _____
H. Jury Duty & Misc.	\$ _____
I. Total Additional Labor Cost (Add D through H)	\$ _____

J. TOTAL LABOR COST PER YEAR. (Add C to I)	\$ _____
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TAXES, INSURANCE AND RELATED EXPENSES: (Estimate on Per Year Basis)

K. Payroll Taxes: Social Security, State and Federal Unemployment, Disability, (estimate 12% of total labor cost per year)	\$ _____
L. Workers Compensation Insurance (estimate 6% of total labor cost per year)	\$ _____
M. Medical & dental premiums, life insurance, bonuses, retirement pension, (estimate 14% of total labor cost per year)	\$ _____
N. Liability and Property Damage Insurance Premiums and Bonding (estimate 5% of total labor cost per year)	\$ _____
O. Uniforms and Equipment (estimate \$500 per security officer)	\$ _____
P. Cost of recruiting, screening and hiring employees (estimate \$250 X number of security officer turnovers per year)	\$ _____
Q. Total Taxes, Insurance and Related Expenses (Add lines J-P)	\$ _____

R. TOTAL ANNUAL COST (Add Lines J + Q)	\$ _____
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