

Manager's Journal:

Outsourcing Comes Home

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The "new economy" is having an effect on home economics. Americans increasingly are "outsourcing" traditional homemaking functions, a trend driven by three factors: more women working, an older population and a growing affluent class. Outsourcing is a logical extension of David Ricardo's 1817 theory of "comparative advantage." Individuals, no less than companies, do best when they focus on activities in which they can add the most value, and outsource other activities to specialists. And since housework has traditionally not been counted as an economic activity, the impact on the economy of extending outsourcing into the huge household-services sector will be massive.

The lines between home and office are blurring. With the number of home-based business at more than 12 million and rising, and with a projected 14 million telecommuters by next year, nearly 30 million Americans will be working at least part of the time out of their homes. As people do more business in the home, they also manage their households more like businesses. Specialist vendors are emerging that deliver better price-performance value than consumers can create in-house. In other words, the "make vs. buy" question will increasingly be answered "buy." This will create a great deal of new economic activity and give people more time to focus on their "core businesses" of productive work and the pursuit of happiness. Here are some of the functions householders are outsourcing:

-- Cooking. We used to cook at home most nights and eat out on special occasions. Now a home-cooked meal is increasingly a special occasion; Americans carry out more food from restaurants than they eat in. What's more, supermarket sales in the new category of "home meal replacement" -- prepared foods -- are growing rapidly, and are expected to reach \$176 billion a year by the year 2001. Combined, take-out, delivered and "grab and go" foods account for \$460 billion a year today.

Many dual-income families now hire personal chefs, who offer a "turnkey" solution: planning, shopping, cooking and cleanup. A typical personal chef works for some 20 clients, offering variety and customization to each. While this is a relatively new profession, it is growing fast, and already boasts its own national association.

-- Cleaning. According to the University of Maryland's Americans' Use of Time project, the average American spent 15.6 hours a week cleaning in 1995, compared with 27 hours a week in 1965 -- even though the average house has gotten substantially larger since the 1960s. Between 1986 and 1996 the number of households using an external cleaning service rose by 33%.

-- Child care. The industry is booming, with revenues estimated at \$30 billion, up more than 100% in real terms over the past decade. Five million children attend some type of child-care facility, and onsite child care is the No. 1 perk demanded by employees with young children.

-- Pet care. Sixty million U.S. households have at least one pet, and the pet-care industry is at \$20 billion a year and growing fast. Pet sitters now have their own professional organization, Pet Sitters International. Day-care centers for dogs are becoming commonplace. With cutesy names such as Dog Day Afternoon, Yuppy Puppy Pet Care and Hollywood Hounds, they provide services such as training, grooming, massages and "pawdicures." At New York's Wagging Tail, dogs can listen to classical music and even have birthday parties.

-- Shopping. In the Boston area, home grocery shopping companies ShopLink and Streamline also pick up and return dry cleaning and videos, mail packages, develop film, deliver firewood, repair shoes and collect deposits on empty bottles.

-- Concierge services. Personal-service companies such as Road Runner, Personal Concierge, At Your Service and Time to Be Free are sprouting up everywhere, doing everything from waiting at home to meet maintenance personnel to walking clients' dogs. These companies are finding that their primary market is not the rich, who already have full-time help, but the time-starved middle class. Real-estate companies, too, are increasingly offering such services.

The aging of America has obvious implications for personal services. There is more demand for home-based health services, home-based assisted living, assistance with cooking, cleaning, yard work and so on. Many companies will have to reinvent themselves. Home-improvement superstores, for example, have prospered in recent years by riding the do-it-yourself wave, a market now in decline, according to Harvard's Joint Center for Housing Studies. In response, Home Depot, Lowe's and Sears are all looking to boost growth in their services businesses. Other companies that manufacture home-oriented products, from Campbell's Soup to Procter & Gamble, will have to consider similar shifts.

As more people give up previously sacrosanct activities to others, they boost the economy in three ways. First, they help create greater employment and higher tax revenues. Second, they harvest some of the resulting time saving into greater work productivity. Third, they invest some of the remaining time and substantial financial resources into hobbies -- many of which are previously necessary activities, such as hunting, sewing and gardening, that people now do for fun.

Consumers today are using some of their considerable financial wherewithal to buy back the commodity that is in most critical shortage in their lives -- time. Their anxiety about using these time-and-labor-saving services has quickly evaporated as the quality of their lives has improved.

The outsourcing of homemaking is still in its early stages, with much growth ahead. The question for many in the future will not be "Can you afford to hire somebody to do that?" but rather "Can you afford to spend the time to try to do that yourself?"

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(See related letter: "Letters to the Editor: Brave New Baby" -- WSJ July 14, 1999)