

Speeding the path to financial resiliency:

Why leading CFOs view business process outsourcing as a means to success





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Introduction

Today's chief financial officers (CFOs) are inundated daily with a multitude of solutions to address their companies' financial challenges. As business process outsourcing continues to mature, CFOs are rethinking how global sourcing models and partnering can help address these challenges. Today's economic pressures are prompting companies to take a renewed look at flexible delivery models as a critical component of their strategy to achieve greater cost savings and be more responsive to market fluctuations.

Executives across the globe are exploring outsourcing's usefulness in business processing as well as IT infrastructure and application management. Areas being considered for business process outsourcing include back-office functions such as supply chain management, customer relationship management, finance and administration, and human resources and learning.

According to a 2009 AMR Research report, "In addition to globalizing their businesses, over half of large enterprises (54 percent) are considering outsourcing as a vehicle for reengineering their business process. Many firms have used the recession as an opportunity to focus heavily on eliminating waste and streamlining poor process flows."¹

For most, the question is no longer *if* but rather *what*, *when* and *how* to outsource.

In today's economic environment, CFOs are essential to driving comprehensive decision-making processes across company boundaries. They are among the few executives who can probe horizontally across the enterprise to identify cost-efficiency issues and corresponding opportunities for change.

Finance & Administration— reducing complexity with a “shift then fix” approach

Standardized processes and innovative tools enabled dramatic transformation for one global consumer products company. The outsourcing provider's implementation of a single finance organization, dispersed among 24 countries and 18 enterprise resource planning systems, enabled significant cost and operating savings. The program has led to €700 million in annual savings. The company's forward-thinking “shift then fix” approach drove reduced complexity and risk, provided greater visibility and access to information for decision making, and increased speed to benefit. The provider's flexible delivery model continues to adapt to the client's changing business environment to improve competitive positioning.

They also bring unique analytical and risk-management expertise to the table, plus an enterprise-wide vantage point from which to design and sequence strategic programs. Business process outsourcing offers CFOs a means to address immediate cost pressures without suppressing long-term growth, and allows them to identify opportunities to restructure and optimize operations for continuous improvement and sustainable operational excellence.

Outsourcing from the CFO perspective

With a solid 15-year history, today's business process outsourcing offers measurable benefits of particular interest to CFOs, including the ability to:

- **Reduce costs and accelerate benefits.** Outsourcing back-office tasks can lead to “quick wins” in most areas of transaction processing—up to 25 percent savings in the first year with the implementation of standardized and automated processes that utilize refined tools and capabilities.
- **Build sustainable competitive advantages.** Standardized and automated supply chain and procurement processes across a worldwide enterprise can dramatically cut costs and lead to more consistent customer satisfaction and brand loyalty.
- **Improve flexibility.** Converting fixed costs to a flexible delivery model lets companies move their cost base to definable, measurable, controllable and predictable investments, enabling them to quickly respond to market fluctuations.
- **Drive higher capital utilization.** By reducing physical property, plant, data center and equipment needs, outsourcing can lower overall costs and free up cash.
- **Tighten controls.** Strict disciplines, greater oversight, process visibility and real-time analytics and reporting offer clarity, compliance and accuracy, helping minimize cost overruns and revenue fluctuations.



Customer Relationship Management—reducing costs, boosting total service value

A leading international software company quickly reduced its base-line costs by 31 percent by moving work to a global outsourcer's platform. Since then, in a clear demonstration of the "trickle-down" effect of total service value, the provider has driven more than 14 percent reduction per year in total cost of ownership beyond pure outsourcing benefits: 10 percent (almost US\$4 million) through a combination of the deflection of voice calls to Web self-service and the improvement of data recovery times, and an additional 4 percent (>US\$1 million) through further process improvement initiatives. The provider achieved these (and other) benefits while also significantly improving customer satisfaction—evidenced by improved Net Promoter scores and service levels. The company's growing satisfaction with the engagement is demonstrated in the progressive expansion of the outsourcing model over time—from 20 full-time equivalent workers (FTEs) in 2000 to nearly 1,000 FTEs in 2008; the outsourcing partner now supports eight lines of business in diverse geographies.

Outsourcing today: IBM's point of view on new models, better results

Investments and advances in analytics, technology, innovation plus repeatable experience across a large number of outsourcing efforts have provided a catalyst that can make outsourcing a more attractive model than ever before. Furthermore, outsourcing has made other significant advances and demonstrated distinct advantages over internal shared services. Among the advancements:

Global sourcing. The combination of offshore, onshore and near-shore resources helps transform business operating models. Beyond cost advantages of labor arbitrage, companies can use global integration and delivery to enter into new markets, expand production or services to 24x7 operations, tap skills or resources unavailable locally, or stimulate competition among vendors.

Faster path to transformation. The outdated "fix then shift" approach has been replaced by a "shift then fix" model, in which processes and tasks are first moved to the provider's resources, and then optimized. Shift then fix bypasses upfront capital expenditures and implementation costs, reduces complexity, and assures state-of-the-art process design and technology. And it's delivering shorter-term, iterative ROI that frees funds for long-term strategic initiatives.

Global integration through partnering. Companies that are adopting the "shift then fix" approach are leveraging partners to accelerate and extend their change agendas. In its most recent global survey of CEOs, the IBM Institute for Business Value found that 85 percent of CEOs plan to partner to capitalize on global integration opportunities, and more than half plan to do so extensively. Furthermore, the study found that outperformers are 20 percent more likely to partner extensively to access capabilities needed to drive global integration.²

Procurement—driving change through better buying

An international consumer products company sought to significantly reduce indirect material spend by boosting sourcing effectiveness and compliance, increasing the use of its legacy automated buying-cycle tool, and improving supply management support. The outsourcing provider developed an end-to-end solution that included managing the company's global strategic sourcing; handling procurement operations (including tactical buying, blocked invoice resolution, supplier management and call center support); and hosting and managing the buying-cycle and legacy data warehouse tools. By leveraging supplier relationships, the provider delivered marked savings on purchases while enabling significant cost reductions through procurement operations and infrastructure management outsourcing. Additionally, the provider leveraged tools and processes to improve spend visibility, financial controls and compliance reporting. As a result, the client realized more than \$150 million in savings over three years.

Rapid results, reduced risks. Today's outsourcers provide everything from business process optimization to end-to-end transformation. With experience, they've streamlined and reduced the risk of execution, with new levels of speed, accuracy, standardization and automation, and strong governance for more predictable, consistent outcomes.

Greater assurances. Measurable outcomes such as working capital improvements and reduced spend are more likely to be achieved. Few shared-service models can compete with the capabilities, speed-to-benefit and ROI of outsourcers whose people, processes and technology are in place and ready to go. Demonstrated results in procurement outsourcing include savings as high as 40 percent on a particular spend category and generally realize two to 10 times ROI on provider fees and a payback of less than 12 months.

Process optimization. Standardized and automated processes accelerate readiness and drive integration capabilities while helping reduce costly errors, duplication and operating expenses such as labor and downtime. Other measurable benefits include revenue enhancement; improved risk management, controls and compliance; refined customer experience; better data access, quality and integrity; and governance-driven predictability.

An enterprise-wide view of outsourcing

Successful outsourcing depends on making decisions in a holistic, strategic manner designed to drive a staged plan of consolidation, optimization and integration that will remain aligned with long-term financial and business goals. The concept of total service value, illustrated in Figure 1, is a key element in measuring the benefits of outsourcing with any potential provider.

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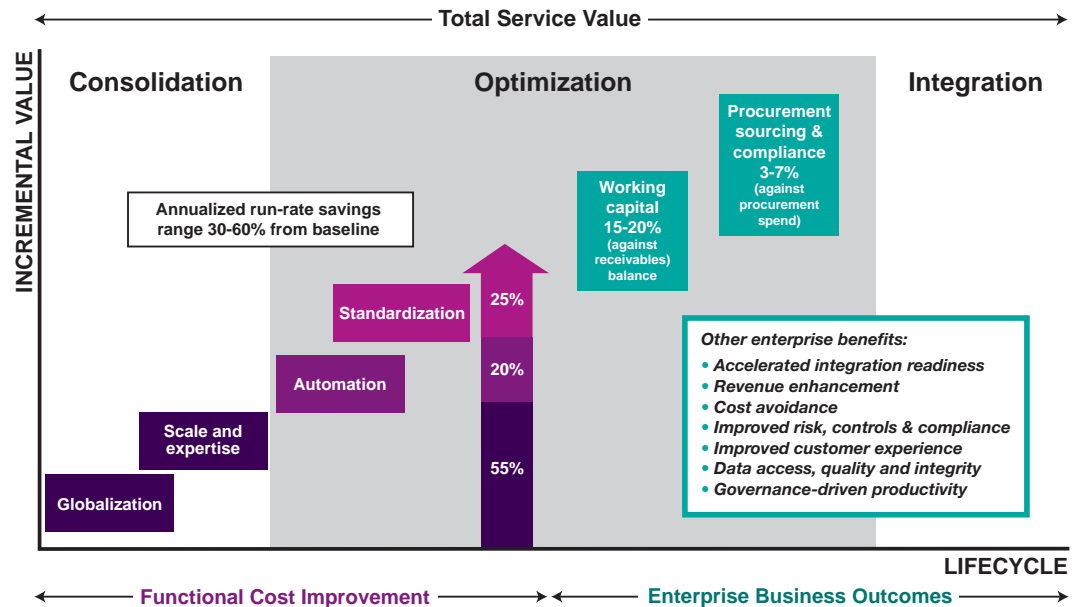


Figure 1. IBM's framework to deliver certainty of outcomes and speed to benefit, extending beyond cost and savings.

That value is driven by the incremental automation and standardization that comes with outsourcing. However, outsourcing decisions demand integrated planning and coordination of projects, a structured approach to vendor selection, and the participation of key decision makers from across the company.

Planning also should include a commitment to effective joint governance to provide operational oversight, drive continuous business process and IT improvements, deliver quality services for the business to compete effectively, and maintain a clear chain of command.

Human Resources—gaining benefit from the evolution of a shared service model

A major airline was evaluating whether to continue to grow its internally developed shared HR services model to address new functional and fluctuating business requirements. As effective as the existing internal shared solution was, the evaluation indicated that there were opportunities for improvement. Outsourcing would ensure that the technology used would be kept up to date, eliminate direct maintenance cost, leverage expertise and, most important, provide a cost-effective, flexible way to meet current and future requirements. Although the initial focus was primarily on integration, the company realized improvements in areas such as HR, and new functional capabilities such as health and welfare administration. In order to address the business need for flexibility—namely, the ability to scale both up and down in response to changes in the economic climate—the solution incorporated a variable pricing model that allows the airline to dynamically and effectively respond to business cycles while maintaining high utilization of its resources.

Ten critical questions for CFOs to ask before outsourcing

1. Do we know what our back-office baseline costs are and have the flexibility to adjust quickly to changing market conditions?
2. Is my company ready for change, and how far is it willing to go to consolidate back-office processes?
3. Which back-office processes or major subprocesses are differentiating for success, and which are nondifferentiating?
4. What are the outsourcing options for nondifferentiating processes?
5. What are the organizational implications and support for a shared services business model? For an outsourced business model?
6. What changes do we anticipate will affect our business beyond the needs of the next four quarters?
7. Which outsourcing approach is right for my company: starting small with narrow scope, ready to grow as pocketbook and prospects improve? Or with a broader scope, for comprehensive optimization and transformation?
8. Which sourcing provider is best for our preferred approach—to develop clear plans for consolidation, optimization and integration?
9. Has the due diligence on our short list of potential providers enabled us to choose the right partner based on proven track record, global delivery capability, attractive financial return, industry expertise, technology enablement, governance model and innovation strategy?
10. Where should the work be done, when will it get moved, what do we need to do to enable the change and how will the value flow to my firm over time?



Conclusion

Changes over the past 15 years—some dramatic, some mundane—cast a new light on IT, application and business process outsourcing. These changes give companies a fresh set of powerful services, tools and talent to help navigate economic fluctuations, improve competitiveness and prepare for prosperity. Armed with these new capabilities, CFOs can make strategic decisions to drive their companies to become globally integrated enterprises.

The investment decisions they make today will position their companies for growth in the next decade. While evaluating options that address their immediate needs to eliminate inefficiencies and optimize effectiveness, business process outsourcing warrants serious consideration. The solutions available today enable companies to focus on their differentiating competencies, and partner with providers to handle those that do not—a model that allows companies to increase productivity, respond to new requirements and drive economic growth.

For more information

To learn more about how IBM can help you employ outsourcing as a strategy for addressing your current business challenges, please contact your IBM marketing representative or IBM Business Partner, or visit the following Web site:

ibm.com/services/outsourcing

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¹ Phil Fersht and Dana Stiffler, "State of the Outsourcing Industry in Mid-2009: Activity To Resume With a More Cautious and Global Focus," AMR Research, July 23, 2009, <http://www.amrresearch.com/Content/View.aspx?compURL=tcm:7-46183>

² "The Enterprise of the Future: The IBM Global CEO Study," IBM Institute of Business Value, May, 2008. <http://www-935.ibm.com/services/us/gbs/bus/html/ceostudy2008.html>



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