





The netsourcing solution

By Mark A. McDowell

Using Internet and mobile commerce technologies, companies can streamline and deliver noncore business processes in new and innovative ways.



You say your shared services operations have hit the wall on both cost and quality? Welcome to the club.

Both the consolidation of support processes into shared services units and the outsourcing of specific business processes have delivered substantial savings and upgrades. But pressure is building in today's competitive markets for even more significant improvements.

Getting there presents a conundrum, however. Further improvements in support processes will require investments in technology, people and processes. And that siphons scarce capital away from core business units. Not surprisingly, with today's relentless focus on cost reduction, management teams are balking. As a result, many companies find themselves falling behind in their ability to deliver the quality support services their core businesses need.

What to do?

One effective solution is Web-enabled outsourcing—that is, buying your shared services functions as a single service from a provider capable of transforming your business processes through netsourcing.

Another solution is available to a few nimble companies that already have a full-service business unit that performs these functions in-house. They have an opportunity to bring their shared services capability to market with a well-chosen partner that can fill in any blanks.

More than a fad

Shared Services Forum, an Internet-based network of experts in the field, estimates that more than 40 percent of Fortune 500 companies use shared services to support their core business

units. In addition to finance, information technology, human resources, payroll and legal, other shared services include procurement, logistics and distribution, customer service, marketing and communications, and public relations.

Shared services centers are not just the latest management fad. According to *Business Finance*, "The real rush to shared services has occurred among corporations that . . . need to centralize far-flung operations" during periods of rapidly expanding global operations. In fact, the Gartner Group reports that shared services centers are under way in a majority of Global 500 enterprises. Gartner also notes that this trend is mainly driven by cost reduction, the elimination of redundancies in IT infrastructure, process automation and standardization.

Consolidating shared services internally has yielded benefits above and beyond obvious efficiencies and cost savings. For example, consolidating customer service through a national call center may lead to a more customer service-oriented culture, with improved customer satisfaction and easier access through common technology platforms. Ultimately, both the qualitative and quantitative benefits are strategic, since they can help a company respond quickly to changing business requirements.

The results of some of these efforts have been dazzling. For example, at the time of its merger with Honeywell, AlliedSignal had established a support service staff of 1,100 people providing five types of services—including finance and human resources—to the entire organization, plus 400 outside customers. From 1995 until its December 1999 merger, this shared group saved the company more than \$300 million. AlliedSignal brought the shared services concept

to the new company, Honeywell International.

Bristol-Myers Squibb's Global Business Services unit, formed in 1997, has saved the company \$1.5 billion per year since then, which the company has used to finance key processes such as sales staffing and research.

For those companies that still execute disparate, nonconsolidated support processes, the opportunity for improved business value by buying services is substantial. Buying services from a netsourcer enables them to bypass the costly investment in capital and management time required to consolidate and transform existing support processes. Companies can move almost immediately to world-class support processes with minimal investment.

To a great extent, business process outsourcing has been a logical next

step in the evolution of consolidated internal services. A strategic service provider is in a better position than an in-house cost center to reduce costs, improve service, be more responsive to rapidly changing needs and keep abreast of upgrades in critical technology.

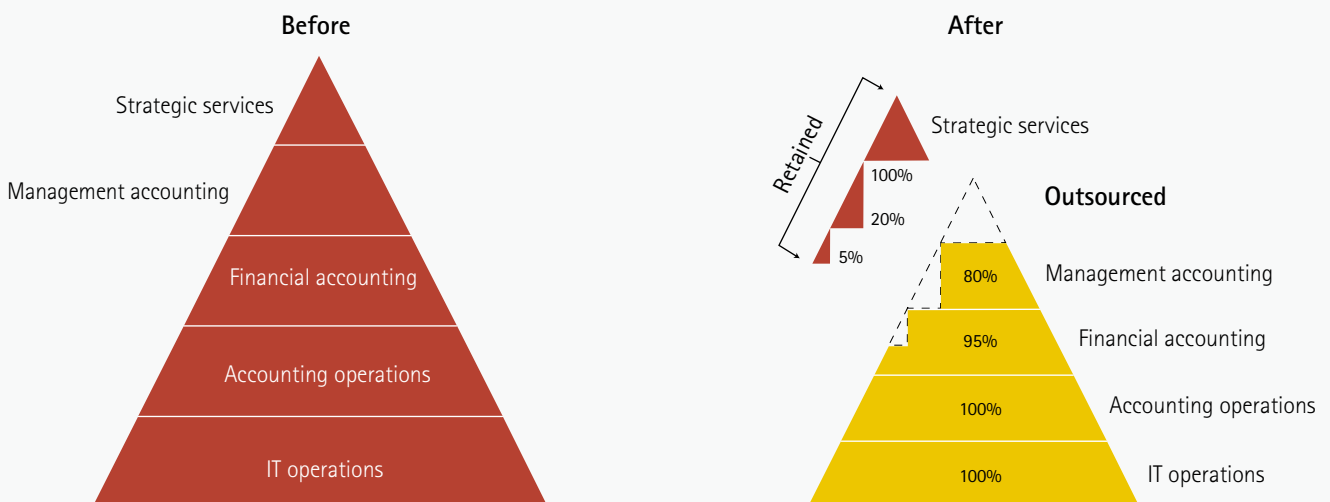
The company procuring such outside services also benefits by being able to focus on its core business processes instead of being distracted by important, but nonstrategic, support processes. Finance, accounting and selected functions within human resources are among the most frequently outsourced business processes.

According to market research firm G2R, the demand for shared services outsourcing is expected to surge an average of 22 percent per year over the next few years, expanding the market to nearly \$402 billion by 2003.

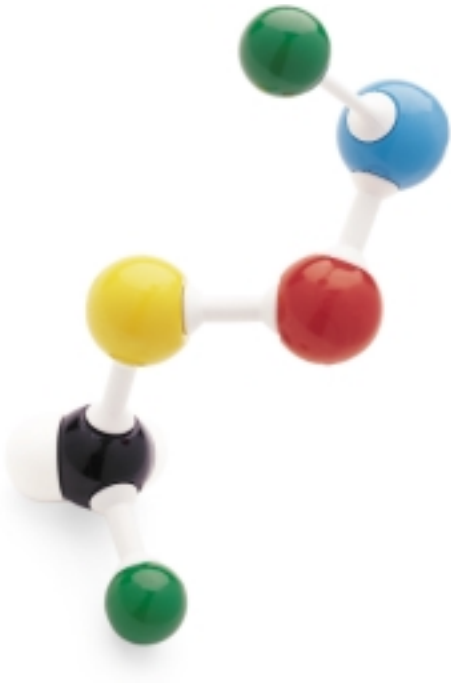
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Bottom line

For companies that outsource their shared services, the typical breakdown is charted below. In a traditional outsourcing arrangement, cost reductions of between 25 percent and 35 percent can be achieved. With a netsourced model, where noncore business processes are delivered via an online network (and increasingly, m-commerce), the quality of service is higher, while costs can be reduced by anywhere from 20 percent to 50 percent.



SOURCE: ACCENTURE ANALYSIS



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The breakdown of outsourced services has changed little in recent years. The largest segment remains manufacturing services, which includes contract manufacturing, quality control/testing, research and development, and materials management. However, the outsourcing market for the other processes (such as human resources; procurement; finance and accounting; logistics and distribution; and sales, marketing and customer care) is also growing rapidly.

To date, companies have outsourced parts of functions—payroll, human resources, benefits, finance, accounting—to different service providers. But today's trend is toward even greater consolidation, with companies outsourcing multiple business processes or functions to a single service provider. Increasingly, these support processes are being provided by a netsourcer; companies pay on a subscription or per-transaction basis.

Raising the bar

Despite the improvements that companies have made with both internal consolidation and outsourcing, there is relentless pressure to do better. In-house shared services business units are being squeezed to cut costs further, to improve service levels and functionality (but without using up scarce capital), and to find ways to avoid the ongoing costs of technology upgrades.

Likewise, expectations of improved service are increasing in several other dimensions for both in-house and outsourced providers. For example, many people expect business processes and the results they deliver to be readily available, often on a self-service basis. This, of course, is because of the Internet and its promises of greater efficiencies and ease of use.

Moreover, flexibility and scalability are required to respond to changing market conditions. And streamlined, one-stop total service offerings are preferred to fragmented, confusing and often overlapping processes that typically evolve piecemeal.

These outsized expectations, in turn, put pressure on the company to make the investments needed to deliver potential benefits. Internet-enabled technology tops the list because it can automate much of the transaction processing traditionally handled by shared services centers. As an additional benefit, this technology can involve individual employees and managers, as well as suppliers and customers, in finance, human resources and other processes.

Furthermore, the real-time interactions employed by Internet-enabled business processes not only capture but also act upon the information that comes from individual users. The result is that technology virtually eliminates the need for support personnel to spend substantial amounts of time helping other employees with noncore business processes. Instead, they can be freed up to perform value-added activities such as serving customers and growing the business.

Liberating staff

Consider a specific example like travel services. Through the use of an Internet-enabled reimbursement system, employees can view their credit-card charges online and transfer them onto their expense accounts with the click of a mouse. Those mouse clicks trigger automatic payments to the credit-card companies and credit employees with cash reimbursements that go directly into their paychecks. The entire loop saves the travel staff a host of tedious, mind-

numbering data-entry duties, allowing them to focus instead on customer service, troubleshooting and process improvements.

On a more ambitious scale, leading global companies are outsourcing their services through a shared services approach. Take, for example, Accenture and British Telecommunications. Both are 50 percent owners of e-peopleserve, an HR business solutions provider. Whereas in the past, companies have outsourced HR operations piecemeal (like payroll or benefits administration), e-peopleserve can provide employee lifecycle services (recruiting, deployment, compensation and retirement benefits) through a self-service, company-wide Internet model, cutting costs substantially.

The push to achieve the exponential benefits of Internet-enabled services like this one will only intensify.

Another source of pressure: Despite the fact that savings already may have been wrung out of the shared services centers through initiatives like reengineering and retooling, the cost of support processes continues to rage out of control.

A common example is the need for many shared services centers to respond to acquisitions and divestitures. The centers must continuously absorb the costs of moving services out for divestitures or in for acquisitions. More often than not, it's expensive to retrofit the legacy technology, and resizing the shared services employee head count becomes difficult and costly.

Finally, there is the ever-intensifying need for more and better information. For example, there is an increasing demand for timely and sophisticated customer and financial information

that employees can use to improve customer service. Mobile commerce technologies can provide salespeople and other employees in the field with the information they need to be competitive. (For a related story, see page 80.) So can unified customer data that's gathered and distributed by Web-enabled systems.

Turbocharging the process

The most effective response to these pressures is to outsource as many noncore support processes as possible to a netsource provider that offers a streamlined, Internet-enabled solution. But besides addressing the above-mentioned pressures, a net-based approach offers additional advantages.

First, a service provider can leverage the capital investment in technology and the ongoing operational expenses over the larger transaction volume from serving multiple customers. Economies of scale benefit all customers as the per-customer unit costs go down. Likewise, the service provider makes ongoing, continuous improvements in the business processes, resulting in more consistent and higher-quality services at a lower cost.

Second, by using Web-based systems and technologies, the retained employees involved in the support processes can become value-added knowledge workers. They can help to continuously improve the services they provide by using technology to enable more self-service for support processes. The company benefits from the resulting surge in quality, the employees—who are, in this sense, the customers—are happier and service center personnel find greater satisfaction in their jobs.

For their part, the service provider's employees have always been better

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able to leverage their companies' knowledge due to the sheer volume and variety of their customer experience. Web technology simply turbocharges that process. In addition, these employees generate revenue and so get the training needed to develop the skills required of a service culture. The company benefits as the overall quality of service improves due to the netsourcer's need to invest in and train employees.

New technologies also make it possible to outsource just about any function in a company. The scope of shared services can be stretched to include functions such as engineering. In fact, the concept of an almost-virtual enterprise looms as a realistic possibility, with all noncore activities handled by service providers.

A final, important plus to combining consolidation, outsourcing and Web-enabled solutions for shared services is that advancing technology gradually has been able to remove the burden of shared services from a company's strategic management efforts.

How to get there

From our perspective, it's no longer a question of whether netsourcing makes sense, but how to get there—better, faster and cheaper. We see three basic options, with the further possibility of doing some mixing and matching among them.

Netsource your outsourced services

If you're already outsourcing, you should move to a netsourcing model as soon as possible. The switch from traditional outsourcing to netsourcing can yield significant order-of-magnitude improvements because netsourcing can provide the experience of one-to-one service to almost unlimited numbers of customers. Traditional outsourcing cannot.

In a one-to-many netsourcing model, economies of scale, learning through experience and all the other benefits of consolidation can be passed on to each customer. In effect, the same Internet technology that makes it possible for in-house functions to leverage technology investments also makes it possible for outside providers to leverage technology and experience gleaned through constant use and improvement over an even wider customer base.

One-to-many outsourcing already is becoming a key competitive factor in many industries. The opportunities for outsourcers to further reduce unit costs and improve their competitive positions will drive them to try increasingly robust netsourced solutions.

Netsource in-house services

Companies that already have developed a consolidated shared services business unit, but are looking for further improvement, should netsource as many of those functions as possible from a leading outsourcer as part of a shared services network.

Furthermore, as the need for new services arises, these should also be obtained via netsourcing whenever possible, rather than by attempting to expand in-house shared services. This is already occurring in some global enterprises.

Spin off your cost center

If you already have consolidated your shared services into a business unit, there is a small window of opportunity to team with a service provider to leverage your existing capability into the marketplace.

By combining assets with another company that can fill in the gaps to take the shared services offering to market, you will create new career opportunities for your employees as

they transition to the netsourcer. And as an anchor customer, you will gain the benefits of being the first to transform your support processes.

While your company can provide people, technology and transaction volume, the right partner should provide access to existing sales channels, investment capital, technology innovation, knowledge capital and whatever else may be needed to serve other customers.

All told, there has been a significant convergence of shared services, new technology and a maturing business process outsourcing marketplace. In taking a second look at how their shared services organizations deliver noncore support processes to business units, many companies see the need for better processes at a more competitive cost. At the same time, Internet and mobile commerce technologies enable these noncore business processes to be streamlined and delivered in new and innovative ways.

The business process outsourcing marketplace has matured to the point where leading companies are outsourcing multiple business functions simultaneously to leverage the synergies available from increasing scale. In this environment, leading companies can be expected to move expeditiously toward a netsourcing solution for all their shared services. ■

Mark A. McDowell is a partner in the Accenture Solutions Operations service line. He has led a wide variety of projects involving solution planning, transition and transformation efforts through competitive outsourcing. Mr. McDowell is a frequent speaker to global audiences on transformational outsourcing. He is based in Reston, Virginia.

mark.a.mcdowell@accenture.com

