



InsideOps | Insights for Asset Management Operations Leaders

Outsourcing: Approaching the Decision Point

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The decision to outsource middle or back office operations is too often portrayed as a canned "suitability" exercise that fast-forwards to evaluating whether this or that service provider is up to the task. In point of fact, for operations leaders and investment managers that have either outsourced operations or kept operations in-house and done both well, the process begins with deep and thorough strategic review which may or may not result in a decision to outsource.

The ideal process consists of an analysis phase, the consideration of various alternatives and finally execution against the selected strategic direction.

By adopting this process, operations leaders will arrive at the decision point ready to make the call that will be right for their firm. Ideally, this evaluation process is undertaken well before a firm finds itself at a crossroads.

Who Are We? Analysis of Key Business Drivers and Challenges

The assessment process typically begins by evaluating the firm's business drivers and the landscape in which the firm operates. This is the best way for a firm to assess which operational functions contribute to the firm's core capabilities and strengths and those that do not. The process ensures that firms take the critically important first steps to methodically answer the "Who are we?" questions like:

- What are our key drivers?
- What are our current challenges?
- What do we do best?
- Which of our current activities represent competitive advantages?

The answers to these key questions are found in the pages of the firm's overall strategic plan. In the absence of a formal strategic plan, guiding principles can serve as the "true north" to guide the process. Guiding principles or strategic objectives for the operations functions of the typical asset manager might include:

- Providing a high quality operating environment that will provide world-class front office support in an efficient and scalable manner

- Maintaining a proactive, high-touch client service culture
- Enabling efficient and repeatable integration of new products and acquisitions
- Retaining distinction as an employer of choice

Table 1 highlights some sample key drivers and challenges an asset manager might confront. While the challenges will be different for each firm, having a comprehensive understanding of the firm's capabilities and its challenges is important for the next step in the process.

Once the operating landscape is understood, conduct an assessment of how the firm's operations, as currently structured, are prepared to match off against the challenges and help the firm seize on the opportunities. This is the chance to answer the question: "Are we set up to achieve our strategic objectives?"

This gap analysis will highlight current and potential future deficiencies in the operating model and technology infrastructure. The gap analysis will document potential issues and limitations with the current approach and highlight the impact of work arounds and corrective actions. It is helpful at this time to estimate the costs of remediating the gaps using current resources.

This assessment should review high level workflows and procedures for all critical functions and the related roles and responsibilities of functional teams. Technology should also be reviewed to ensure that its capabilities are keeping pace with financial innovations. For example, if the firm is about to acquire a foreign trading desk, is it prepared to integrate the systems and processes? The process should also review the efficiency of key handoffs of data and reports across the enterprise. A critical part of the process and often the most productive is to conduct interviews with key stakeholders and business sponsors to understand their challenges with operations. Stakeholders' feedback is also used to define success criteria for the right solution. A review of the existing organizational structure should also take place.

Options

As the analysis process continues, potential solutions begin to emerge. A benefits and risks analysis is prepared to thoroughly assess each option. The analysis should also estimate financial savings and costs as well.

Table 2 lists some of the benefits and risks a firm may pinpoint as factors that contribute to the ultimate course.

Once the analysis is completed, the critical decision point has been reached.

Decision Point

Operations leaders must combine the analysis of its strategic direction and core strengths to reach a decision: to outsource or keep in-house and implement the organizational, technology and process changes required to meet the strategic objectives. Regardless of the choice, a solid business case for change needs to be developed that highlights the operational and financial benefits. In addition, a communication plan to senior executives, employees, and clients should be crafted to communicate the benefits of the decision and the timing. Key messages to employees include the opportunities this presents. Clients will need to know that their current level of service will be maintained or improved.

Conclusion

Clearly, a one-size fits all approach to outsourcing is not the answer. This strategic decision requires a methodical and disciplined process. Factors such as the firm's strategy, its core competencies, culture and technology capabilities all trump service provider capabilities as the primary factors in determining whether outsourcing is a fit for a given organization. Operations leaders that invest in a disciplined evaluation process will ultimately make the call that is right for their firm and its stakeholders.

Steps for Determining Outsourcing Options

| Analysis | Options | Decision Point | Execution |
|---|--|---|---|
| <ul style="list-style-type: none"> • Self Assessment • Strategic Plan • Guiding Principles • Gap Analysis | <ul style="list-style-type: none"> • Operating Model • Outsource • New Technology | <ul style="list-style-type: none"> • Business Case • Communication Plan | <ul style="list-style-type: none"> • Op Model Redesign • Requirements • RFP • Oversight |

Source: Beacon Consulting Group

Table 1: Key Drivers and Challenges Faced by Asset Managers

| Key Strategic Drivers | Challenges |
|----------------------------------|---|
| Growth Profitability | <ul style="list-style-type: none"> • Cost pressures due to lower margins • Doing more with less • Capital expenditure limitations: – Optimizing IT and operations – Reducing technology infrastructure • Seamless integration of acquisitions |
| Efficiency and Complexity | <ul style="list-style-type: none"> • Developing and/or expanding product lines in new markets • Growth of complex investments and related technology limitations • Increased competition • Scalability |
| Risk Mitigation | <ul style="list-style-type: none"> • Effectively monitoring and mitigating risks across the enterprise • Responding to the operational impact of evolving regulations • Execution risk associated with major technology or process change |
| Data Management and Transparency | <ul style="list-style-type: none"> • Access to a single instance of enterprise-level data (e.g. counter party, country, issuer exposure) • Defining authoritative sources of data • Increased investor demands |
| Culture | <ul style="list-style-type: none"> • Maintaining employer of choice status • Ensuring high-touch client service ethos |

Source: Beacon Consulting Group

Table 2: Understanding the Benefits and Risks of an Outsourcing Decision

| Option | Benefits | Risks |
|-------------------------|---|---|
| Retain as is | <ul style="list-style-type: none"> • Continues strong front office support • Sustains corporate culture | <ul style="list-style-type: none"> • Defers strategic decisions |
| Outsource | <ul style="list-style-type: none"> • Time zone arbitrage • Shift to low cost center • Shift to variable cost model • Facilitates acquisition strategy | <ul style="list-style-type: none"> • Work requires specialized expertise • May alter current high level of front office support |
| Operating Model Changes | <ul style="list-style-type: none"> • Creates efficiencies over current operating processes • Upgrade to industry standard processing | <ul style="list-style-type: none"> • Execution risk • Will require new technology to close gaps |
| Offshore | <ul style="list-style-type: none"> • Time zone arbitrage • Shift to low cost center | <ul style="list-style-type: none"> • Non-captive entity • Execution risk |
| New Technology | <ul style="list-style-type: none"> • Upgrade to industry standard • Enables new business processes | <ul style="list-style-type: none"> • Execution risk • Requires operating model changes |

Source: Beacon Consulting Group

Contacts

Girard Healy
Managing Director
girard.healy@accenture.com

Bill Beaulieu
Management Consulting Senior Manager
bill.beaulieu@accenture.com

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