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Formerly Booz & Company

Shared services Inc.?

From back-office to profit-maker

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About Strategy&

Strategy& is a global team of practical strategists committed to helping you seize essential advantage.

We do that by working alongside you to solve your toughest problems and helping you capture your greatest opportunities.

These are complex and high-stakes undertakings — often game-changing transformations. We bring 100 years of strategy consulting experience and the unrivaled industry and functional capabilities of the PwC network to the task. Whether you're charting your corporate strategy, transforming a function or business unit, or building critical capabilities, we'll help you create the value you're looking for with speed, confidence, and impact.

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Shared Services Inc.?

From Back-Office to Profit-Maker

Companies have invested millions of dollars and accumulated years of experience in running highly efficient internal shared services operations. Now many are wondering how to unleash the next wave of value. Many believe that the next breakout strategy will take the form of an extended enterprise play (see Exhibit 1), in which shared services will move beyond the walls of the corporation, either as a seller of services to external customers or as a buyer and aggregator of external services for internal clients.

This prospect is attracting a great deal of enthusiastic market interest. Diverse investors—including venture capitalists, investment banks and Big Five firms—are placing big bets on the future of business process outsourcing (BPO). The range of strategies they are funding is dizzying, ranging from simple outsourcing to joint ventures to spin-offs, and even the outright sale of shared services operations to third parties (see Exhibit 2). As any corporate development executive who has met with these would-be dealmakers will attest, the shared services value proposition has moved beyond cost reduction; these operations are now viewed as a vehicle for generating substantial shareholder value.

Underneath the aggressive deals and value plays lies a set of unwavering, fundamental assumptions. The first and most important assumption is that outsourcing is here to stay. Despite the early bruises suffered by outsourcing pioneers, the fundamental value proposition of outsourcing is solid and only getting better as technology improves and experience grows.

Exhibit 1

What Will Be the Next Wave of Value for Shared Services?

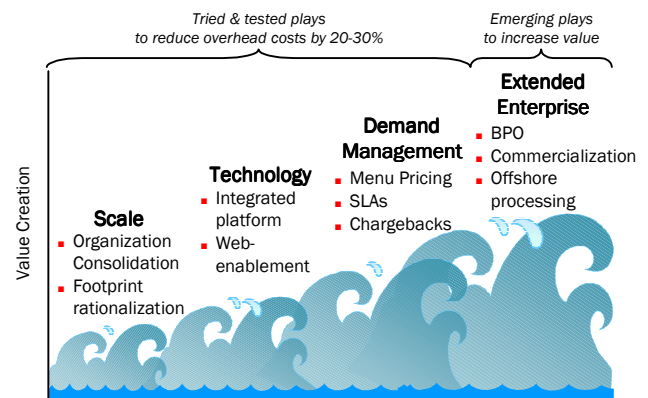


Exhibit 2

Strategies for Commercializing Shared Services Assets

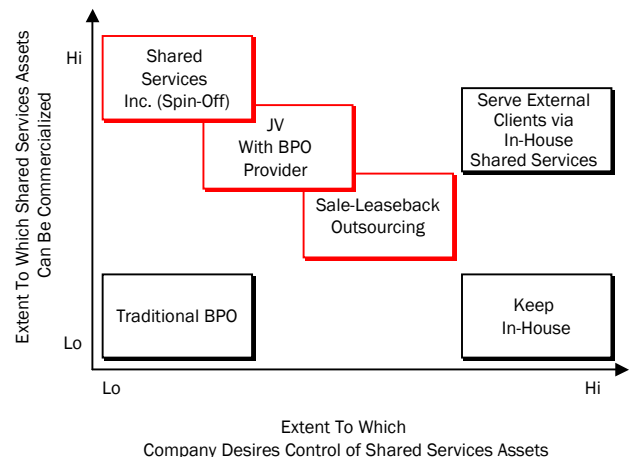
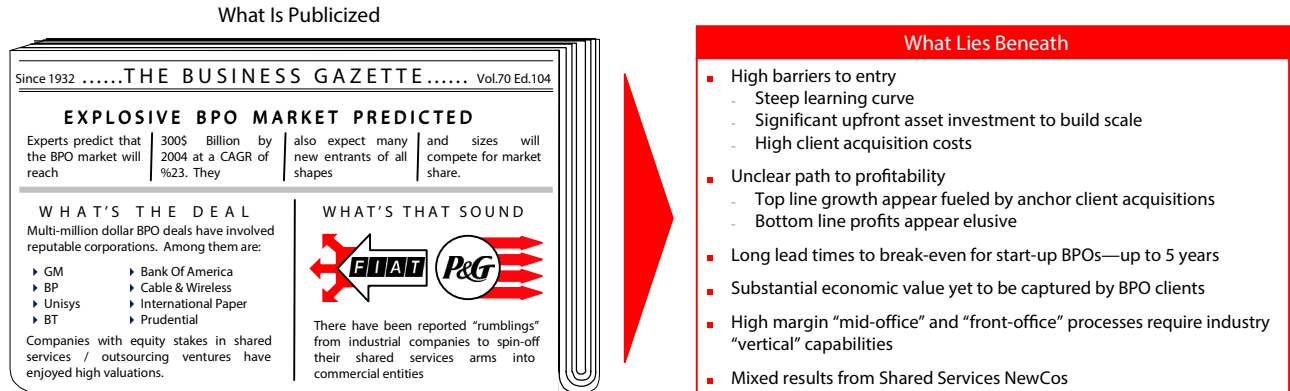


Exhibit 3 Business Process Outsourcing: The Hype Versus The Reality



Second, creating a world-beating BPO play requires a certain degree of critical mass. For a BPO provider, convincing big players to sign-up as anchor clients is a prerequisite for success. **Third**, switching costs are high; once a company commits to an outsourcer's platform it becomes very difficult to switch platforms or bring services back in-house. **Finally**, there is not enough room in the market for everyone to win. Scale and network economies dictate that those who build a viable solution for a given process or function first can effectively raise barriers to competitive entry. If the current outsourcing environment resembles a "land grab," that's because it is one.

Amidst this frenzy, corporate leaders are left in the frustrating position of having to sort through a myriad of entry and migration options. With all the other core business priorities you confront, can you afford to keep pumping more capital investment into internal shared services just to remain competitive? Should you outsource? Or should you partner with a promising start-up service provider in the hopes of earning a potential windfall when they IPO? Finally, do you go it alone, commercializing your own "Shared Services Inc.," and spinning it off for a significant gain at some point in the future?

We at Strategy& would argue for a very measured and deliberate approach. While a handful of leading companies with top-notch shared services could reap immediate and powerful value by playing in today's BPO market, the fact is that the hyped up rewards of such a strategy are not easily realized (see Exhibit 3).

The decision to commercialize shared services is often make-or-break and is always difficult to reverse. Deciding when to move is as important as deciding what move and using which strategic play.

Based on our experience with clients around the globe, **Strategy& has developed a framework for evaluating what strategic options make the most sense in light of a particular company's present capabilities and requirements for success (see Exhibit 4).** This framework helps clients build the right shared services/BPO strategy based on their assessments along three critical dimensions. First, a company must consider the capabilities of the supplier base whose offerings match its own service groupings. Then it must gauge the extent to which its current shared services operation is already operating like a competitive business. Finally, it needs to assess the dynamics and sensitivities of the parent company and its core businesses. Depending on where a company comes out on this three-dimensional assessment, it should pursue one of four BPO strategies: Traditional BPO, Keep Options Open, JV with a BPO Provider or Spin-Off (Shared Services Inc.)

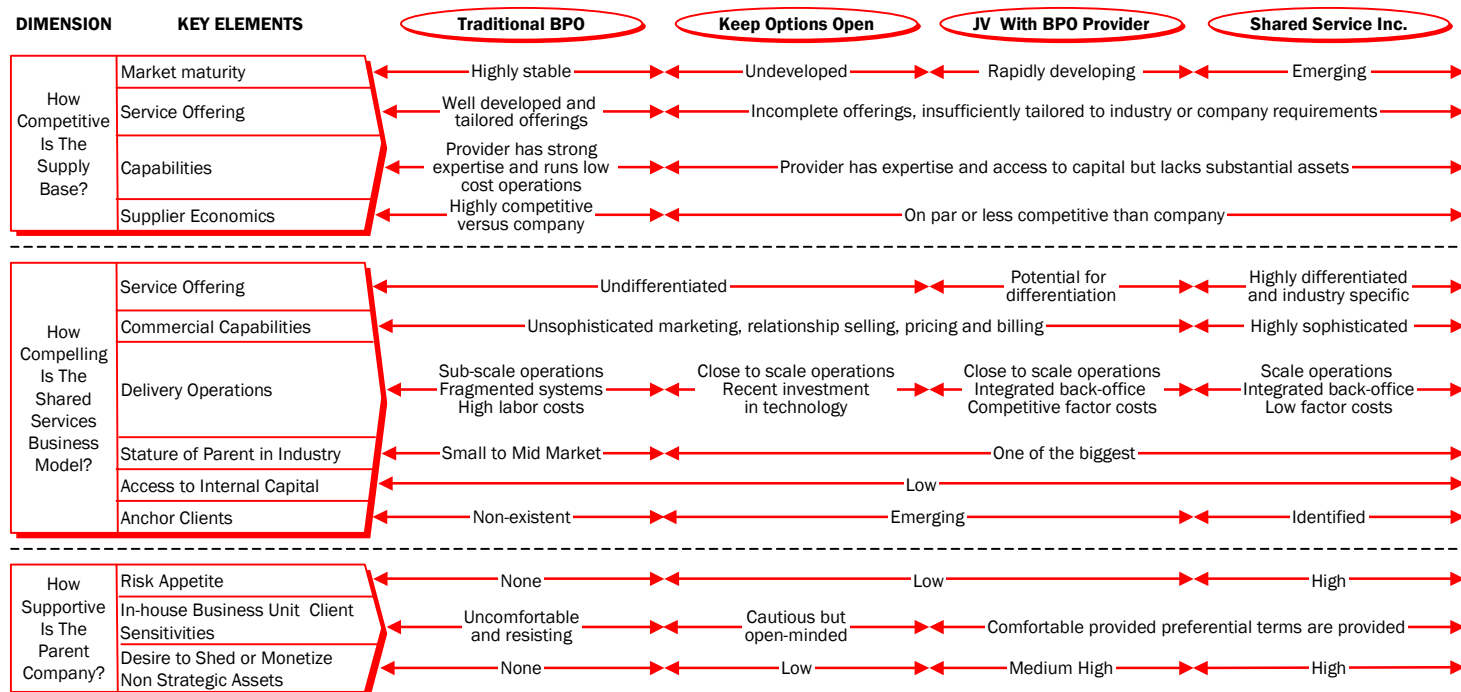
For many, if not most, companies, it makes sense to proceed with caution. Now is not the most opportune time for even the most ready and able companies to bet the farm on a "Shared Services Inc." strategy without a thorough review. By the same token, no company can afford to stand still. Instead, companies should follow a systematic three-stage path (see Exhibit 5).

Stage 1: Become Operationally Efficient

Commercialization and outsourcing plays provide the highest payoff to the parent when internal shared services are at the top of their game. To reach that competitive edge, a shared services organization should continue driving toward lowest costs by further consolidating its service delivery footprint, pursuing lower factor costs, standardizing transactional technology architectures and implementing efficient, "lights-out" processes.

Exhibit 4

Strategic Assessment Framework: Conditions Under Which Each Strategic Option is Relevant



Stage 2: Become Commercially Capable

While many companies claim to run their shared services as a business, few truly have the right processes and tools in place to manage internal customers effectively, much less multiple external customers. The key is to implement market-like mechanisms that give customers—both external and internal—the responsiveness, choice, and flexibility they would expect from an outside supplier.

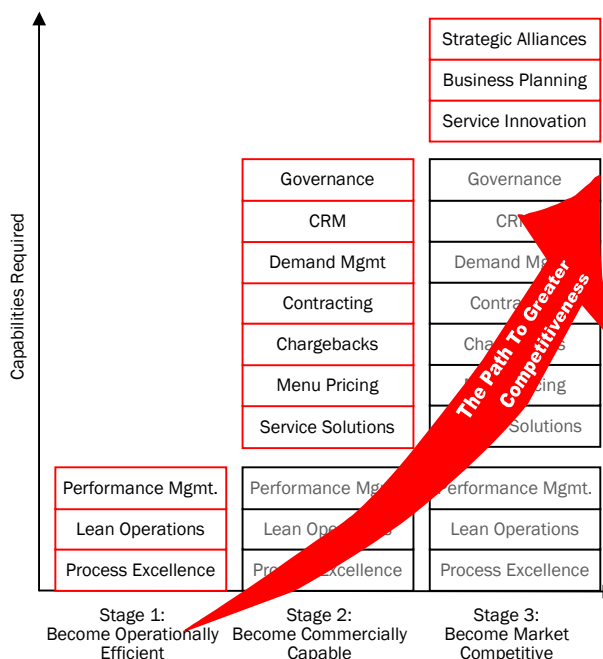
Stage 3: Become Market Competitive

The economics of outsourcing have improved dramatically over the last two to four years, and we believe they will continue to improve as technology progresses and outsourcers learn from mistakes of the past. Whatever decision you ultimately make with regard to making your shared services more competitive, you must rigorously and objectively monitor external alternatives on an ongoing basis, keeping a critical eye on the full economic value and cost of the strategy you elect to pursue.

At some point, BPO and/or commercialization will likely become inevitable, at least to a certain degree. The trick is to know when and where to move in order to capture maximum value.

Exhibit 5

Three Stage Path Towards Potential Commercialization



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