CRO ISSUES

Strategic Thinking from The Outsourcing Institute

Midsized Companies Discover Outsourcing

It's not just for the big guys anymore...

“The value proposition is completely clear: Companies should at least consider outsourcing anything that is not tied directly to competitive differentiation.”

—*Art Williams, Giga Information Group*

“Finance people are still dragged into the day-to-day transaction processing work, instead of analysis and decision making.”

—*David Schnitt, Ledgent*

“When a midsized company looks at growing rapidly, its focus is on customers and keeping a quality product, not on the back office. That’s a cost center, not a revenue center.”

—*Marc Pramuk, IDC*

IN THIS EDITION

GETTING GROUNDED:
Outsourcing comes to the midsized company.

THE TIMELINE:
- Reengineering changes the structure of corporate America.
- Employees revel in free agent status.
- Enterprise resource software comes into vogue.
- Consulting firms offer outsourcing services to the world's largest corporations.
- Large corporations discover the cost and focus benefits of outsourcing.
- Midsized companies miss out on the first wave of the outsourcing revolution.
- The war for talent makes it harder than ever to find qualified finance and HR personnel.
- The collapse of promising start-up firms increases the emphasis investors place on accurate and strategic financial planning.
- The Internet fosters the emergence of ASPs and other firms offering Web-based software and data hosting services.
- Midsized companies join the outsourcing revolution.
- After thinking about purchasing a costly software system, a rapidly growing technology firm outsources its financial and HR processes.

PLUS:
Getting Started:
Five Steps Toward Outsourcing

FROM THE OUTSOURCING INSTITUTE

The last several years have witnessed a wrenching revolution in the way business operates. Searching for a way to reinvent themselves, companies around the world have hitched their corporate wagons to meteoric buzzwords, only to watch these fads fade away, as quickly and surely as a shooting star.

A decade ago, when such companies as Kodak began outsourcing what had traditionally been seen as inherently in-house services, some observers wondered if outsourcing, too, was just another passing trend, one that would reverse itself in due time. But time has not only proven the value of outsourcing, it has enlarged its repertoire. Today more and more companies are outsourcing more and more types of services—and, thanks to the rise of Internet technology, an increasingly wide range of firms now provide these companies with the services they're seeking.

As this first issue of *CRO Issues* reports, outsourcing has moved from being strictly the province of the world's largest corporations to being an increasingly accepted—and critical—resource for midsized companies. But whether the company employing back office outsourcing is large or midsized, managing the relationship between the company and its outsourcing service providers is a key function, and one that is increasingly being undertaken by an individual who could be called—and often is—the Chief Resource Officer: the CRO. That person is the target of this series, the hero of this piece, the change agent in the ongoing business revolution.

Frank Casale
CEO
The Outsourcing Institute

GETTING GROUNDED

Outsourcing isn't just for the big guys anymore. Thanks to Internet technology—and the companies it's spawned—mid-market corporations are finding new ways to save money, win the war for talent, keep investors happy, and find their own strategic focus.

When they started up in early 1998, the team that launched North Systems, a San Francisco-based provider of multi-channel business solutions to industrial suppliers, knew it was only a matter of time until they outgrew their in-house finance and HR systems. "Like most early-stage companies, we started with QuickBooks," recalls chief operating officer Thomas M. Mawhinney. "We thought that would take us to about 100 employees, and then we'd switch to the next step."

That next step, says Mawhinney, might have been taken by implementing an internally hosted software system. But in his gut, he felt that the more practical approach might be to outsource these processes entirely.

"I came out of the venture capital industry," Mawhinney explains, remembering the ways in which the high-tech firms he once helped finance approached the issues raised by rapid growth. In this new venture, therefore, "we know we have to focus on our business. And that means outsourcing all the non-strategic aspects."

Outsourcing. A word that, not long ago, struck fear and trembling in the hearts and minds of workers and managers at some of America's best-known companies. While these same companies had for years outsourced building maintenance, cafeteria services, and even payroll, the notion of not maintaining their own in-house accounts receivable and accounts payable departments, not to mention their own benefits and 401(k) programs, struck them as potentially disastrous. What sort of control would they have, they wondered. How could outsiders understand the idiosyncrasies of their accounting system? How could strangers ever serve the individual needs of employees, without destroying the corporate fabric?

THE TIDE TURNS

But then came reengineering, and the face of corporate America changed forever. Hierarchical organizations were dismantled. The silos that segregated corporate departments were siphoned out, replaced by cross-functional divisions where people shared information and thought about their businesses as holistic enterprises. Massive layoffs rent the corporate fabric, but allowed corporations to think differently about how they deployed their workforces. At the same time, workers started seeing themselves as free agents—or, in the words of noted London Business School fellow Charles Handy, "portfolio workers." Business strategy came back into vogue, and with everyone now dubbed a strategist, corporations began to think seriously about their supply chains, about strategic alliances, about brand new ways of handling old processes.

Fueling this, of course, was technology. As the mainframe gave way to PCs and client/servers, data were more available to more people, enterprisewide software could be easily integrated, and virtual workforces, housed in far-flung locations, could be supported.

Into this fray entered a host of consulting firms and IT specialists, meeting with the CEOs, CIOs, and CFOs of the world's largest corporations, tutoring them in the catechism of outsourcing.

First of all, they taught, there were the cost savings. Hire outsiders to perform such mundane tasks as A/R, A/P, and benefits management and you're bound to save a bundle. There's no need to maintain an extensive and expensive headcount, no need to invest in the software, no need to keep that software maintained and upgraded.

But more than the cost savings—which were substantial—the prophets of outsourcing promised focus: the opportunity for a company, shorn of the tasks that had nothing whatsoever to do with its competitive differentiation, to stick to its knitting, to do what it does best, to think strategically and act competitively.

One by one, companies from General Motors to Bank of America, from BP Amoco to Nortel became believers and contracted with the providers of back office outsourcing services—primarily large consulting firms. And perhaps to their surprise, these large companies found that the fears that had kept them from outsourcing sooner vanished. Rather than losing control of their data and their processes, their control was actually heightened—through better systems, through quicker

and software-sharing tool. The first two have created the need. The latter has allowed firms such as Ledgent to evolve and aim their outsourcing services at the midsized company.

THE TALENT POOL

Whether the company is small, midsized, or enormous, notes IDC's Pramuk, much of the HR and accounting work done in the back office is mundane and labor-intensive. It's never part of the company's core competency. It has nothing to do with how the company differentiates itself in the marketplace. And, he adds, "it's easily automated."

Rather than see automation as a specter, threatening the jobs of a loyal and entrenched group of employees, Pramuk, and a growing chorus of other observers, see it as one answer to another problem facing most companies today: the profound shortage of qualified workers. This struggle has come to be known as "the war for talent."

Outsourcing appears to help companies win some of the battles in this war in two ways. First, it frees senior management in the finance and HR departments at the midsized company from the transactional work now performed by the outsourcing service provider. These senior managers are then able to focus their attention on strategic tasks that are, as Pramuk puts it, "high value-add work," providing them with greater satisfaction and the sense that they are key to the company's success. The outsourcing service provider's employees (many of whom may have once worked for the midsized company before the transfer of services) experience a similar feeling of satisfaction. Even if their days are still largely filled with transactional services, they are actively involved in the core competency of their new organization.

FINANCE MATTERS

In the early days of the e-commerce revolution—say a year or two ago—all it seemed a start-up company needed was a dollar and a dream. Or make that millions of dollars of investment capital. Strategy, data, budgets, profits were all things these companies could worry about later, after the second or third or fourth round of financing rolled in.

But times have changed. As dot-coms have become dot-bombs (and as the once-soaring stock market has become increasingly shaky), IDC's Marc Pramuk notes, investors in all segments have sobered up and demanded not only strategic plans but more and more detailed financial data. In real time. And that, Pramuk adds, has made the move to outsourcing all the more compelling. If they're going to develop detailed financial plans, senior managers need the time to focus on strategy, on market forces, and on the competition. They can't be filling their days processing transactions. Moreover, if they're going to provide investors with real-time data, these managers need real-time access to that data, access that appears to be most easily, efficiently, and cost-effectively provided by outsourcing service providers.

THE INTERNET TAKES OFF

Just as client/server, a technological generation earlier, made data more accessible and helped integrate departments throughout the enterprise, so has the Internet opened door after door. Suddenly companies, their customers, and their suppliers are able to share information in real time. They can avoid the hardware and software purchases, maintenance, and constant upgrades that drained their reserves of both time and money. They can ask outside services—often known now as application service providers, or ASPs—to not only provide them with the most up-to-date software options, but to host their data, while still giving them access to it 24/7. "Technology has facilitated this," says Giga Information

Despite advances through software and outsourcing options, particularly among large corporations, many finance executives are still spending the majority of their time engaged in non-strategic tasks.

Sources: IMA, Saratoga Institute, Deloitte & Touche, Hackett Benchmarking/solutions.

SPENDING MONEY

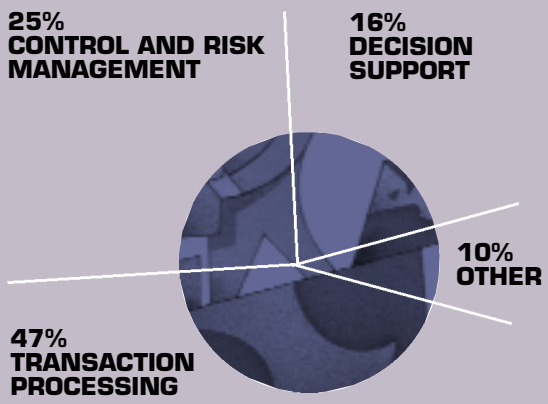
Midsized companies spend a greater percentage of their revenue on back office services than do large companies.

LARGE

MIDSIZED

SPENDING TIME

Financial managers are still spending the bulk of their days on non-strategic tasks.



TYPICAL DAY

Group's Williams. "Now you can have all the bandwidth you need as well as the security."

"Our business wouldn't exist without the Internet," says Schnitt, whose original outsourcing business plan, five years ago, was based on client/server software and proprietary networks. "Because the Internet is essentially a free network, transaction costs between companies are almost nil. We can be a virtual back office: a part of each of our customer's back offices though we're not physically there." That means, for example, that while Ledgent is able to deliver real-time information on revenue, utilization of people, operational statistics, sales leads, and more, it's also able to look seriously at providing, in the near future, recruiting software, customer care, purchasing, and a host of other services.

IN THE BALANCE

The impact, for those midsized companies that have made the leap to outsourcing, has been significant. Cost savings, suggests IDC Pramuk, can range from as little as 30 percent to as much as 80 percent, depending on the size and complexity of the agreement. And the benefits a company reaps by involving more people in the strategic workings of an entire enterprise can't begin to be measured.

But there is also a wide range of additional benefits companies are experiencing that stem not from the obvious transfer of day-to-day responsibilities, but from access to the Web-based information portals that companies like Ledgent are now providing.

By outsourcing a host of functions simultaneously, and by bolting the information generated in performing these functions to information gathered by other departments for other purposes, duplication of effort is eliminated (as well as the likelihood of mistakes). More than that, employees throughout the enterprise are able to really see where their company stands and where it's heading, usually in real time. And as companies, via portals set up by their outsourcers, are able to move more toward employee self-service, IDC's Pramuk notes, employees can "go to one page and see all their employment benefits presented in a meaningful way. They can make address changes, check on contributions, deductions, vacation time, and other benefits. They can find answers, themselves, to frequently asked questions. The employee feels that he or she has control. Coincidentally, it costs the company less while helping to boost employee morale."

At the same time, notes Pramuk, managers have more power and flexibility. They can look at what's going on, track trends in productivity and project-related work, and evaluate skills and competencies in the workforce.

These are exactly the capabilities that North Systems' Mawhinney was looking for as his company passed the 100-employee mark and found itself serving the very complex needs of some 125 customers. In an exhaustive evaluation process, he recalls, "we looked at everything from in-house software to the services of a wide range of vendors." After a colleague told him about Ledgent's system, the comp;any evaluated it and found it met their needs. So, in mid-2000, slightly ahead of schedule, North Systems turned its accounting and HR functions over to this outsourcing service provider—and, like an increasing number of midsized companies across America, turned the attention of its top managers over to growing the business itself. ■

checklist

GETTING STARTED

For many businesses, making the decision to outsource back office processes is the easy part. The logic (not to mention the expected benefits) is just so compelling. It's the implementation that gets scary. But it doesn't have to be. Here are five considerations that can make it quick, efficient, and as non-disruptive as possible.

Data: The outsourcing service provider you choose will give you a list of the documents and information he'll need in order to provide you with the back office services you've requested. To get these data together with dispatch—and to speed implementation of outsourcing services—you'll need to allocate both time and staff resources.

Details: The outsourcing services provider can't operate in a vacuum, and data alone doesn't tell the whole story. In order for the outsourcer to replicate and even enhance your back office processes, you'll need to describe your existing procedures and systems capabilities in considerable detail.

Decisions: If your transition to an outsourcing arrangement is to proceed without delay, you'll have to make timely decisions, including those related to design and implementation. And this participation doesn't stop when you've signed the contract: Your cooperation and quick decision-making ability will be critical throughout the implementation process.

Deliberation: Make sure you take the time to learn everything you can about your provider's system and capabilities. Understanding that—and knowing the members of the team who will actually be providing these services—will ensure that you're getting the maximum return for your investment.

Delight: It may seem at first that in handing over so much information to an outsider you've also forfeited control of your back office processes. In fact, if you've done your homework and picked a qualified provider suited to your needs, you'll find you're in greater control than ever before. Shortly after implementation you'll discover you're already reaping significant benefits—and enduring far fewer ongoing hassles.

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