

ONE OF THE BIGGEST DECISIONS YOU WILL MAKE FOR THE NEXT 5-10 YEARS - HOW TO BALANCE BUSINESS PROCESS GLOBALIZATION AND TRANSFORMATION

Business Process Globalization

For Current Members of Hackett Advisory Programs

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The strategic alternatives for business process globalization (BPG) range from “lifting and shifting” to “transforming and shifting.” Across the G&A functions the former scenario represents a total cost savings value of \$116.2 million for a Fortune 500 company, whereas “transform and shift” delivers \$182.2 million. In a “transform and shift” scenario, \$110.4 million savings are realized through transformation only, with the remaining \$71.8 million through globalization.

These are consolidated numbers and it should be noted that large differences exist among individual G&A functions and processes within those functions. These differences are illustrated by the finance and IT profiles:

- Finance has a large “lift and shift” globalization opportunity. Finance transformation also delivers very substantial process cost savings, yet reduces the globalization opportunity because many of the “offshorable” FTEs are eliminated.
- In IT, the globalization opportunity is largely unaffected by transformation because the size of the total pool of FTEs available to offshore is not substantially reduced though the transformation.

Consequently, to optimize their globalization opportunities, companies need to manage a portfolio of business processes, combining elements of “lift and shift” with “transform and shift” strategies. The optimal approaches of individual business processes depend on such factors as risk, complexity and net present value (NPV).

OPTIMIZE THE BALANCE BETWEEN GLOBALIZATION AND TRANSFORMATION

In an earlier *Enterprise Strategy*, “Business Process Globalization Trends: the Impact of Globalization on the Balance between “Lift and Shift” vs. “Transform and Shift,” (February 22, 2007) we made the case that recognition of performance improvement potential through business process globalization (BPG) has reached the corporate mainstream.

While early-stage globalizing companies were opportunistic about prioritization of opportunities and strategy, now that more conservative and risk-averse companies are looking to globalize, a more systematic approach for analysis of the opportunity is required. These organizations need better models for quantification, as well as insight into the implications of different globalization scenarios.

One of the questions companies should ask in the context of their BPG strategy is: “What is the optimal amount of process transformation needed before moving work offshore?”

At the opposite ends of the globalization spectrum are two scenarios:

- **“Lift and shift”** (globalize with no transformation at all)
- **“Transform and shift”** (transform the process to world-class performance level and then globalize)

These scenarios mark the two extremes on a continuum that contains an assortment of choices.

In reality, no company will be able to “lift and shift” all of its G&A processes, nor can individual processes be lifted and shifted offshore exactly as is. As for the “transform and shift” scenario, organizations will always weigh the level of investment in transformation against any achievable short-term benefits they may capture by offshoring.

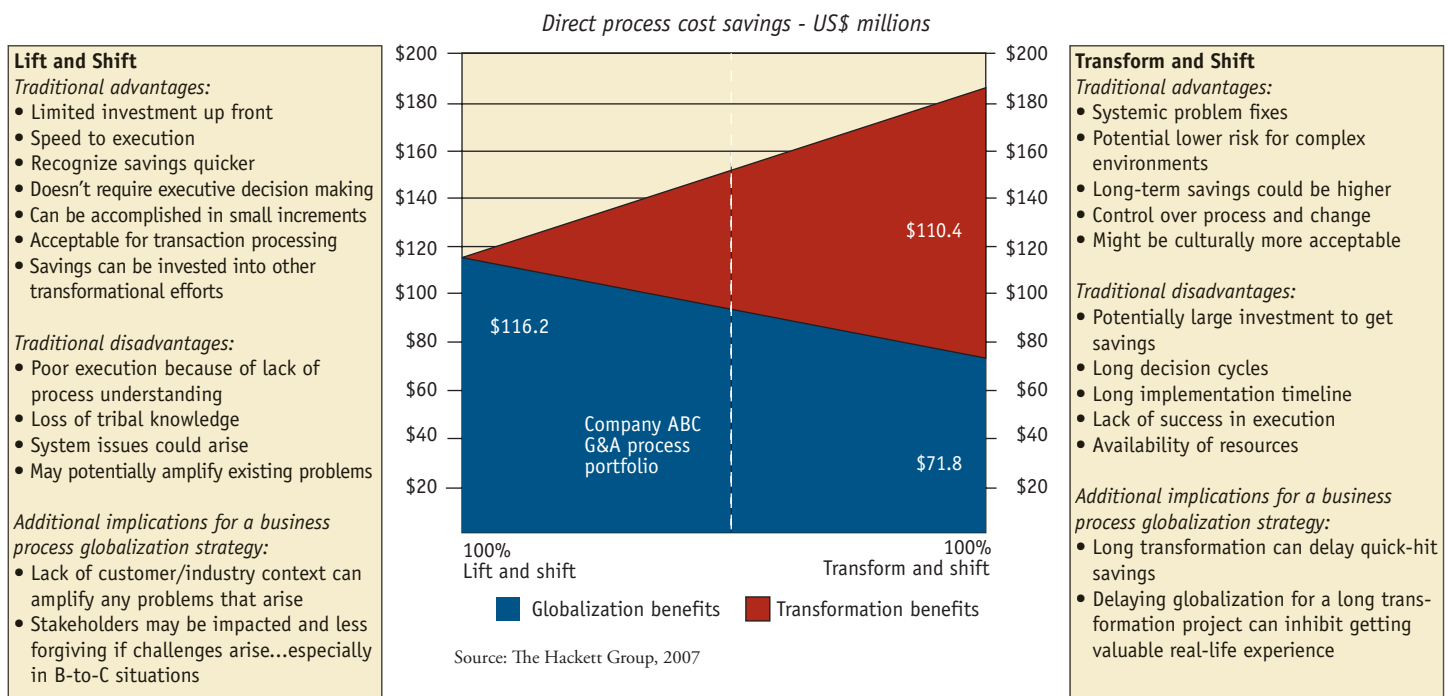
QUANTIFYING BOTH SCENARIOS

It pays to present an estimated impact of both scenarios here. The insight such a comparison gives into the relative merits of each extreme will be helpful when assessing the value of the intermediate scenarios that companies will probably implement in practice.

Fig. 1, calculated for a typical Fortune 500 company with \$19 billion in revenue, quantifies the “lift and shift” and “transform and shift” scenarios for all G&A functions and underlying processes combined.

Companies represented on the left, or “lift and shift” side, are harvesting the benefits of labor arbitrage. The total value of direct process cost savings for a typical Fortune 500 company in this scenario is \$116.2 million.

FIG. 1 Enterprise view: Globalization and transformation in finance, HR, IT and procurement



Data on the right represents a pure “transform and shift” scenario. Here, the company first transforms the particular process to achieve world-class performance levels and then globalizes. Transformation typically involves complexity reduction through process redesign, automation, centralization and consolidation. Processes that are not initially suitable for globalization because of their risk and complexity profile are first transformed so they can potentially be globalized.

The estimated value of the “transform and shift” scenario is \$110.4 million through initial transformation, and another \$71.8 million through subsequent globalization. Although the combined value of \$182.2 million exceeds the “lift and shift” value, the cost of realizing these savings will be higher. “Transform and shift” does not guarantee higher NPV.

Companies should be aware that in a “transform and shift” scenario, savings take longer to materialize. However, the end result of this strategy is typically a more optimized global process and higher levels of process effectiveness.

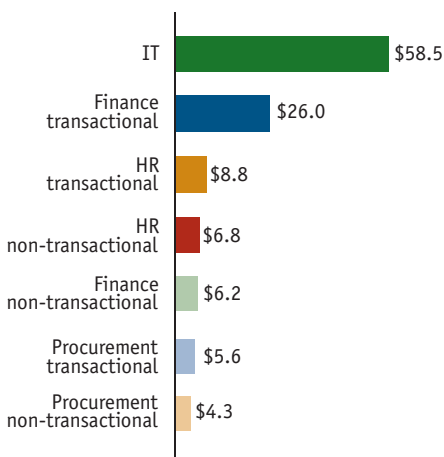
A BUSINESS PROCESS PORTFOLIO VIEW OF GLOBALIZATION

In reality, a globalization strategy involves a portfolio of processes that will be transformed to various degrees before globalization, depending on NPV, risk and complexity. The design and execution of this strategy across all G&A processes is a journey that will take companies between five and 10 years.

A G&A process portfolio for a specific company is characterized by a position on the “lift and shift” to “transform and shift” continuum, as shown as “Company ABC” in Fig. 1. As companies go through the journey, gradually globalizing more complex processes, they move to the right (Fig. 1).

Companies must be aware that throughout their globalization journey, technology advances and process-maturity progress will constantly change the NPV, risk and complexity balance. As a result, the balance between “lift and shift” and “transform and shift” will also change. For example, opportunities for globalization of technical (or remote) infrastructure management exist today that were not available when many companies set out on their journey five years ago.

FIG. 2 “Lift and shift” total benefits for Fortune 500 company (total US\$ 116.2 million)



Source: The Hackett Group, 2007

ENTERPRISE LEVEL BUSINESS PROCESS GLOBALIZATION SCENARIOS

Scenario one: Lift and shift

In this paper, we compare the BPG profile of the various G&A functions. These profiles are the basis for further analysis, and, ultimately, translate into a strategy defined at the process and sub-process levels. In our analysis, we have broken down the finance, HR and procurement functions into “transactional” and “non-transactional.” For IT such a distinction is not meaningful so IT is represented at the aggregate function level. The resulting analysis can be seen in Fig. 2.

Not surprisingly, for the transactional processes, the “lift and shift” opportunity exceeds the non-transactional processes in all three G&A functions. Lifting and shifting of IT has a significant process cost savings opportunity that exceeds all

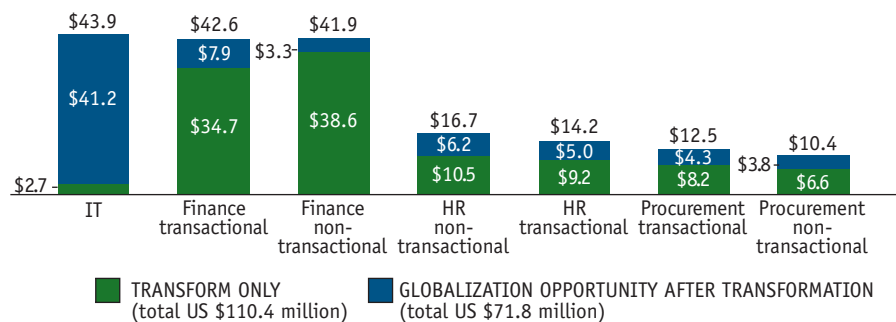
other functions. But other non-cost performance metrics may be impacted in a “lift and shift” scenario, as well. For example, after moving a process to India, error rates may go up or down, depending on the complexity of the process and the capability of the offshore service center. The key is that such performance changes are not the result of a deliberate up-front process redesign. Rather, they are a by-product of characteristics of the process and the sourcing model. In this example, the total value of the opportunity is \$116.2 million: IT represents close to 50% of that figure.

Scenario two: Transformation

The second scenario involves transformation only (Fig. 3). For a typical Fortune 500 company, the total value of the transformation opportunity of the functions presented in Fig. 3 is \$110.4 million – over \$73 million of that is in finance.

The process cost savings opportunity through transformation exceeds the globalization opportunity for all functions (transactional and non-transactional) except in IT, where the opportunity is really small. The transformation scenario actually

FIG. 3 “Transform and shift” total benefits for Fortune 500 company (total US\$ 182.2 million)



Source: The Hackett Group, 2007

presents a big picture view across all processes within a particular function, and, at this consolidated level, transformation generates more savings than globalization. However, for some underlying processes and sub-processes, globalization may still offer more process cost savings than just transformation. These are typically highly commoditized, transactional processes.

With almost no savings opportunity through transformation, Fig. 3 shows IT to be an anomaly. This is because IT transformation is primarily aimed at improving the effectiveness of the function, resulting in higher business value realized in non-IT functions. Of course, this doesn’t mean companies should not strive for transformation and world-class performance in IT. Just know the realized benefits of such initiatives will not be reflected in IT process cost savings.

Scenario three: Transform and shift

In the third scenario, companies realize the benefits of globalization after transformation. Note that after the transformation, the company will be operating at a higher level of performance than is in a “lift and shift” scenario. In this situation, processes will be more mature, more automated, better documented and so on. As a result, the company is less likely to run into scalability issues, a benefit that may mandate a “transform and shift” scenario for some processes.

For a Fortune 500 company, the globalization opportunity after transformation is \$71.8 million. **Fig. 3** shows how this opportunity breaks down by function. The reason this opportunity is less than the \$116.2 million globalization opportunity in a “lift and shift” scenario is because transformation initiatives increase productivity, resulting in fewer FTEs per unit of work left to globalize.

Combined with the \$110.4 million up front, the total opportunity for “transform and shift” is \$182.2 million. **Fig. 3** illustrates that the bulk of the globalization opportunity after transformation is still in IT.

What is leading the “lift and shift” vs. “transform and shift” decision?

We reiterate that the impetus behind the “lift and shift” versus “transform and shift” decision is complexity, risk and NPV. To understand and manage a G&A globalization project portfolio, companies need to assess these factors at the process or sub-process level. Herein lies the challenge: to assess (sub-) processes this way, executives must have a deep understanding of the process. Also, to estimate the NPV of “lift and shift” versus “transform and shift”, leaders also need to understand the benefits and the cost side of the equation. This requires careful modeling and many assumptions about the causes of individual costs. Consequently, organizations will often resort to less sophisticated, but more practical rules around BPG (and sourcing) decisions. These include:

- Any process that touches our strategic clients stays onshore and/or in house.
- For any transactional process that is non-differentiating, we will rigorously pursue efficiency optimization/cost minimization and offshore where we can.
- Business processes slated for globalization will be consolidated in a shared services organization.

The Hackett Group advocates a detailed analysis approach explicitly identifying drivers of risk, complexity and NPV at the (sub-) process level. This increased level of sophistication of analysis is part of moving up the BPG maturity curve, and the only way to rationalize BPG strategy, including “lift and shift” versus “transform and shift”.

STRATEGIC IMPLICATIONS

Some of the first questions organizations need to answer as they develop their globalization strategy are:

- **What is our destination?** Companies need to develop a clear picture of their “future state.” This may change over time, but at any given moment it is important to have clarity around the objectives of globalization – and how these objectives will be achieved. Hackett finds that companies leading in G&A

business process globalization started out with high-level objectives, such as “Fifty percent of company XYZ’s core G&A FTEs will be offshore by 2010.”

- **Do we take a decentralized or centralized approach at our business process source geographies?** Companies need to decide what level of centralization to pursue for geographies that are in scope for business process globalization. Consolidation may take place by region, language or division. Typically, a higher level of centralization leads to higher efficiencies, but slower time to benefits and higher transformation costs. In other words, centralization represents a move to the right in Fig. 1., away from a “lift and shift” scenario and toward a higher fraction of “transform and shift.”
- **Do we take a decentralized or centralized approach at our business process destination geographies?** The level of centralization for destination geographies is also a strategic decision. To maximize efficiencies, many companies will opt for a single, centralized offshore destination. Others, in order to diminish risk, will establish multiple centers that can function as backup facilities. Distributed offshore centers may also be aligned with geography, time zones, language and divisional structures. One large Hackett client runs its shared services out of seven global centers that can cut over to each other in a matter of days, enabling the organization to mitigate the risk of disruption in any of their destination countries.
- **What is our risk profile and how do we align our globalization strategy with this risk profile?** All strategic alternatives include risk. Leaders need to assess and align their globalization strategy with their company’s risk profile. Risk will factor into decisions around scope, timing and level of transformation of the globalization initiatives. Note that even a “do-nothing” scenario invites the risk of incurring a structural cost disadvantage.
- **What is our operating model and what is the role of our external partners?** As companies go through their globalization journey, they also go through a learning curve. At all stages, various forms of external partnerships may impact this process. These forms may range from the creation of a fully outsourced model, to a build, operate and transfer model, and a joint-venture model. Companies will also engage consultants at various stages of the process. Which model to operate and who to partner and engage with are critical matters.
- **What is our funding model?** This is a serious consideration. “Lift and shift” tends to be based on a self-funded model, whereas “transform and shift” requires more up-front investment and has typical payback cycles.
- **What are our effectiveness objectives?** The primary perspective in this research is direct process cost savings associated with strategic alternatives. However, there are implications for effectiveness value drivers that factor into the decision as well. For example, revenue cycle processes will impact days sales outstanding (and, hence, working capital) and customer relationships. A Hackett client that moved its IT development offshore said it can now deliver more value through discretionary project work for its business units without an increase in overall spend.

RELATED RESEARCH

“InterContinental Hotels Group: Best Practices for Offshoring to India,”
March 27, 2007

“Business Process Globalization Trends: the Impact of Globalization on the Balance Between “Lift and Shift” vs. “Transform and Shift,” February 22, 2007

“116 Million Reasons Why the World Is Flat,” November 7, 2006

ABOUT THE ADVISORS

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Mr. Janssen is responsible for analysis, thought-leadership and research activities for The Hackett Group’s advisory programs. In addition, he leads the firm’s efforts in world-class sourcing and outsourcing. During a career spanning over two decades in outsourcing leadership positions, he has been a major contributor to the industry’s development and designed strategies for creating effective relationships between service organizations and their clients in a wide range of industries and business processes. Prior to joining The Hackett Group, he was president of Supplier Solutions for Everest Group, a consultancy specializing in strategic, management and transactional advice to buyers and suppliers of outsourcing services, and co-founder of the Everest Research Institute. In addition, he provided strategic oversight for Everest Group’s Outsourcing Center, the world’s largest outsourcing community and a vehicle for identifying early industry trends. Previously, he was a senior director in Gartner Group’s strategic sourcing practice and held numerous management positions with EDS.

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Mr. Ramirez is a leader of The Hackett Group’s business process sourcing research and advisory activities. One of the original former founding partners of Answerthink, Inc., in 1997. Previously, Mr. Ramirez was senior vice president of Acclaris, a global business process outsourcing firm with offices in the US and India, responsible for its Global 2000 HR and finance and accounting process outsourcing business. Mr. Ramirez has over 24 years of experience working with senior executives at Fortune 500 companies in the transformation of the finance, HR and procurement functions to achieve world-class performance. He has significant experience in all aspects of designing and implementing shared services and has worked with multinational organizations throughout North America, Europe, Asia Pacific and Latin America. Previously, Mr. Ramirez was an audit and consulting partner with KPMG Peat Marwick.

ABOUT THE HACKETT GROUP

The Hackett Group, a strategic advisory firm, is a world leader in best practice research, benchmarking, and business transformation services that enable world-class performance across selling, general & administrative (SG&A) and supply chain activities. Hackett provides strategic insight, best practice advice and implementation services grounded in performance metrics obtained through 15 years and 3,500 benchmark studies at 2,100 of the world's leading companies. Through its sister company REL, a world leader in implementing cash flow improvement, Hackett also offers tailored solutions that generate cash flow from operations in addition to process cost savings.

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