

FORETHOUGHT LEAN STRATEGY

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## Make Your Back Office an Accelerator

by Paul Rogers and Hernan Saenz

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When back-office costs spiral and services fail to deliver, the reflex is often to cut support services across the board. But our study of 37 companies in industries ranging from consumer products to financial services to energy shows that strategically trimming and reconfiguring support functions such as HR, finance, and procurement is smarter than making wholesale cuts. Done right, it can actually improve effectiveness as it reins in costs.

Most companies find three broad opportunities to extract value when downscaling their support services: by reducing use, by redesigning a process, or by fundamental restructuring.

To *reduce*, companies need to simplify what support functions are expected to deliver and eliminate nonessential activities by focusing on what's most important to the customer or the business. Reducing the number of financial reports at an advertising company we studied, for example, was an easy move to make. A more creative solution is to charge for services, for instance requiring business units to pay for reports from a shared market research function. Often, that reduces use. More important, it creates a market mechanism that favors the most efficient, high-quality services. These types of changes are relatively simple to implement and in our study, accounted for an average of 25% of total savings in strategic back-office cost reduction.

*Redesigning* smarter support services requires companies to dissect their processes. The key here is to focus on the most essential processes (financial reporting in finance, for instance, or recruiting in HR), eliminating steps that don't truly contribute to the business. Automation is often part of the solution. In a simple example, one telecom equipment company provided its salespeople with CRM software so they could pull up customer details and price quotes in real time, which improved their

speed and effectiveness while also reducing costs. The move allowed the company to trim the sales administration and finance functions that managed and updated customer information. Another step is to purchase better inputs at lower cost by consolidating or bidding out for indirect expenses such as hotels and travel, cleaning and maintenance services, telecommunications, and utilities. Working smarter on the right processes is generally harder to do than simply reducing demand, but it yields more savings, accounting for approximately 35% of total savings in our study.

*Restructuring*, though hardest to execute, typically has the biggest impact, contributing some 40% of the total savings achieved in our study. The goal is to ensure that support services are located and organized in such a way that they can perform most effectively at lowest cost by, for example, consolidating services currently done in several countries into a regional shared service center or by moving services out of the business units and into corporate headquarters.

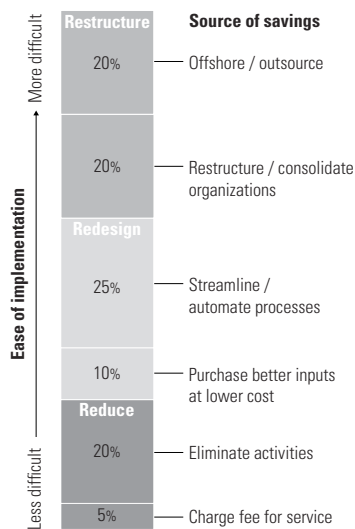
Sometimes, restructuring will lead to the decision to outsource. Kyobo Life Insurance, in Korea, added an outsourced call center to support customers so salespeople who used to provide support could focus on selling. The result: a jump in revenue, a dramatic increase in customer service rankings, and a savings of nearly 40% in back-office costs.

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