

White Paper

By Kathleen Goolsby

Multi-client Shared Services:
Outsourcing's New Model

Copyright 2002 © Deloitte & Touche.

Multi-Client Shared Services: Outsourcing's New Model

Introduction

At war with the bottom line and seeking higher return on investment (ROI), yet recognizing the need to hit the ground running when business turns new corners in the marketplace, shrewd executives turn to outsourcing as the most effective, time-tested strategy for achieving their objectives.

Historically, the value-added advantages of outsourcing have been available mostly to only large corporations – those able to afford a provider's customization of its business solution to fit the particular requirements of a buyer's enterprise (a one-to-one model).

The past three years have seen the development of affordable solutions for small to mid-size companies utilizing the application service provider (ASP) (a one-to-many model). However, it lacks flexibility, and the one-size-fits-all ASP model of renting software applications is too restrictive for mid-size and large companies that need customization.

This paper discusses the benefits of a new, more cost-effective model. The **multi-client shared services outsourcing model** allows the flexibility for a customized solution. The paper explains

- this model's benefits,
- why it is growing in popularity,
- how it differs from a one-size-fits-all (ASP) multi-client model, and
- how it enables end-to-end services and industry-specific solutions.

Finally, the paper discusses selection criteria for a service provider offering this business model.

Outsourcing's formula for success is based on leveraging an external service provider's **economies of scale, expertise** and **scalability of resources**, enabling the buyer's enterprise to accomplish new things or do things that were too expensive internally.

The notable cost-effectiveness of the multi-client shared services outsourcing model now makes it possible for mid-size companies to enjoy the strategic outsourcing solutions that large enterprises enjoy in a more costly one-to-one model.

Multi-Client Shared Services: Outsourcing's New Model

Primary Benefits

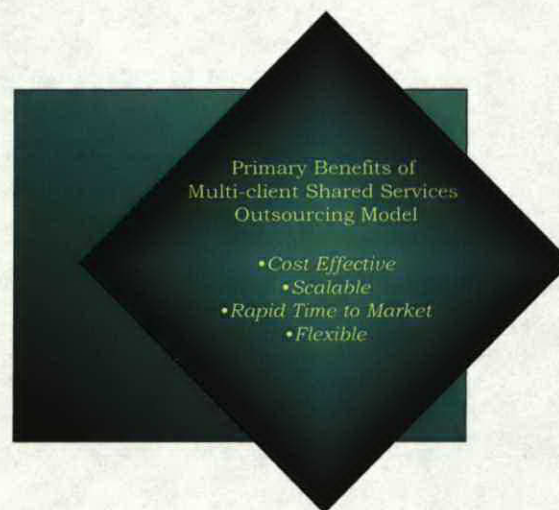
Technology underlies the ability to create effective solutions for today's business problems. The more demanding and competitive an enterprise's environment, the more important the technology infrastructure becomes. Yet many mid-size companies (generating \$1 billion or less in revenue) are running their businesses on IT infrastructure that has not been upgraded or rebuilt in a number of years. As a result, they are dealing with how to solve IT challenges now adversely affecting their ability to be competitive. These include:

- The information from the current infrastructure is not sufficient;
- The system is running out of capacity;
- The IT infrastructure is inefficient;
- The IT infrastructure is costly to run and maintain; and
- The company is struggling to recruit and/or retain a skilled IT workforce.

In a competitive arena, such companies cannot operate fast enough or cost-effectively to deliver satisfactory results for customers or take advantage of new opportunities. Now there is another option – the multi-client shared services outsourcing model.

As illustrated in Figure 1, the model comprises four primary benefits. None of the four is unique to outsourcing; however, all four are accessed more effectively through this model.

Figure 1



Cost-Effectiveness

Many companies are starting to reap the benefits of the new model's shared platform. An enterprise reaps cost benefits by sharing the provider's data center services and IT infrastructure already in existence for its other clients.

A client's applications and data are implemented on top of the shared platform and then run and maintained more cost-effectively and efficiently because of the provider's expertise.

This component of leveraging a provider's economies of scale is crucial in outsourcing. In *Turning Lead Into Gold: The Demystification of Outsourcing*, author, Peter Bendor-Samuel, explains the concept and its importance thus:

"For a [service provider] to take over an existing process and provide it back to a buyer [at less expense] and at an acceptable standard of performance – and

still make money – there must be a fulcrum that produces added value. Leverage is the name we give to that fulcrum. ...The leverage of economy of scale is a powerful source of value in business realms.”¹

“The concept of economies of scale is simple and is comparable to water stored in a dam. Once the dam is built, operating costs are not much greater for storing a lot of water than for storing just a little. ...This creates the potential for the buyer to enjoy lower costs...”

Peter Bendor-Samuel

Service provider Deloitte & Touche specializes in the multi-client shared services model for mid-size companies.

In this model, the outsourcer does not take over its clients’ existing data center or existing infrastructure and run it for them. The objective is to help a company move to the next step, with state-of-the-art infrastructure, rather than running the client’s outdated existing infrastructure better.

Rapid Time to Market

In today’s fast-moving business environment, time to market is an important consideration in any business solution. The time necessary to execute a transition to outsourcing (hence the level of effort and costs associated with transitioning to outsourcing) is typically a lot less than a traditional, lengthy internal ERP implementation and/or a business process reengineering project. The cost is even less and the speed of

connectivity is faster with the multi-client shared services outsourcing model because of the model’s shared IT hardware and shared data center services.

Case Studies #1-4, below, illustrate the rapid time-to-market results obtained by capitalizing on an outsourcer’s expertise and resources.

CASE STUDY #1

“Company 1,” a mid-sized manufacturer with a new startup division that needed highly automated processes, had been unsuccessful in efforts to implement a J.D. Edwards system to link Company 1’s system to its vendors and customers. During the implementation phase struggles, the company also realized it did not want the future responsibility of maintaining the system.

Within just five weeks, Deloitte & Touche (the outsourcing service provider) had them up and running with a single, seamless solution to support users in two European locations and in the U.S. with financial, distribution and customer/supplier self-service modules.

CASE STUDY #2

“Company 2” a leading provider of eBusiness infrastructure and supply chain solutions, had been a client of an ASP that was hosting J.D. Edwards OneWorld, Agile and Crystal Decisions software solutions.

When the ASP announced it was shutting down operations, Company 2 needed a quick solution before it was left without a system.

A multi-client shared services model provider (Deloitte & Touche) was able to negotiate a deal with the software companies to host the buyer’s solution. Within just a few days after contract signing, the solution went live with no hitches.

¹ Peter Bendor-Samuel, Turning Lead Into Gold: The Demystification of Outsourcing (Provo, UT: Executive Excellence Publishing, 2000), 64 –66.

CASE STUDY #3

"Company 3" was in the midst of a phased rollout of a J.D. Edwards OneWorld implementation to a dozen European countries to replace its legacy application when it realized it did not want to be saddled with building and maintaining the infrastructure necessary to support the new solution.

The solution involves access through an Internet browser over secure Internet connections and private circuits. An ASP provider search in Europe yielded no one with the required stability and services Company 3 needed.

Seeking a high-quality, cost-effective solution, Company 3 turned to an outsourced shared platform model.

Deloitte & Touche was selected to manage the phased implementation and to take over responsibility for hardware/software maintenance and support, telecommunications and security services. The provider's services scope included integration and hosting of related applications and external interfaces.

The arrangement led to an accessible OneWorld Xe environment within just days of signing the outsourcing contract, including pre-go-live configuration and training. Production access to users was delivered within seven weeks.

Most significantly, the solution was delivered at affordable cost and with limited upfront investment in infrastructure by Company 3.

Even more important than the shared platform model, the rapid deployment results in the above case studies and in the following Case Study #4 are the result of the outsourcing provider's ability to mobilize a vast array of resources necessary to execute an outsourcing plan expeditiously and to cause change in processes and practices not otherwise achievable through initiatives handled internally.

CASE STUDY #4

The relationship between "Company 4" a leading global chemical company, and outsourcer Deloitte & Touche was initiated in connection with the Company 4's acquisition of a division of a chemical manufacturer. The scope of services included transitioning the company's accounting, processing, costing and information systems.

The provider performed interim accounting processing while designing an entire accounting infrastructure that included the people and equipment for accounts payable and receivable, general ledger and fixed asset investment processes in a JD Edwards environment.

Flexibility

Differing from a least-common-denominator kind of solution, the multi-client shared services model allows a degree of at least 20-30% customization and configuration unique to an individual enterprise. Moreover, an enterprise's software versions hosted by the service provider can be changed at different times from the provider's other clients.

Because the model is flexible, the solutions can be pre-configured or fully customized.

Case Study #5 is an example of a highly customized outsourcing solution, yet one that is cost-effective because of a shared platform and the provider's expertise. The complex, individualized needs of the enterprise in this case study could not be met without customization, which is cost-prohibitive with most outsourcing providers.

CASE STUDY #5

The client in this outsourcing relationship is an entity that guarantees privately issued securities.

The securities marketplace relies on such guarantees of timely payments and assumption of potential for loss. The client must monitor hundreds of lending institutions that issue the securities it guarantees, more than seven million underlying loans and more than 100 custodians holding document collateral for the loans.

The client sought an outsourcing arrangement to perform risk-based reviews of the activities of the loan issuers and document custodians and to analyze the client's business risks.

It turned to Deloitte & Touche, which was asked to develop risk-based review procedures and perform multi-year onsite reviews of the loans issuers and document custodians.

The work includes reconciliation of data between these institutions' records and their reports to the guaranteeing institution, as well as analyzing their regulatory compliance. The outsourcer also provides Mortgage-Backed Securities (MBS) program risk analysis and other risk management support services to the guaranteeing entity.

Although this outsourcing solution is highly customized, the review programs were developed, a field team was built and trained, and analytical tools were built within just two months.

The outsourcer also now provides its client with Web-based issuer and MBS program information and analysis to meet its increasing risk information needs on a timely basis.

Companies also derive ongoing cost advantages from the scalability and flexibility of a shared platform model.

Deloitte & Touche designs contractual provisions that allow for a client's business volume changing either up or down. The model remains cost-effective because clients move in and out of scope of services in an infrastructure that already exists.

Part of the contract is fixed; the other part has a variable component. As a client's volume goes up, that company would reap the benefits of the outsourcer's economies of scale. Should the company's business transactions lessen, it would not be held to fixed costs based on prior business volume; instead, the variable cost component on a per-unit basis would increase.

This benefit is especially attractive to mid-sized businesses, which often are involved in growth strategies. One company now relying on this solution for operating its business is a retail organization composed of several well-known U.S. fast-food franchise chains.

In this outsourcing arrangement, Deloitte & Touche provides a turnkey operating solution to the franchise's group of storeowners. For the entire franchise group, the outsourcer provides the accounting, sales and use tax reporting and all other financial back-office processes; supplies the underlying technology and provides the applications support necessary for the processes.

As illustrated in Case Study #6, this model is also ideal for larger companies that have operations in several countries with a small volume of business in those countries.

CASE STUDY #6

The buyer in this outsourcing relationship, a large global telecommunications firm, sought an outsourced solution for its operations in Latin America. The volume of work in that region was too small for an outsourcing provider to cost-effectively build a data center to support such a potential client. Outsourcer Deloitte & Touche, however, has existing multi-client shared services data centers in Latin America, Europe and the U.S. and, thus, was able to cost-effectively provide the desired services.

This outsourcing relationship has since spread to the telecom's locations in 27 countries within Asia-Pacific, Europe and the Americas (excluding the U.S.). Deloitte & Touche is providing accounting and taxation expertise for the client in each in-scope country and addresses compliance requirements at each local country level. The provider's seamless, global outsourcing solutions allow the client to pursue its core business activities with a "one-touch" approach to the handoff of its accounting and tax data processes. The outsourcer's expertise also limited the client's risk related to transition and operational issues.

End-to-End Services

Although enterprises have successfully utilized outsourcing as a business strategy for cost reduction, forward-thinking CEOs know that outsourcing value. It is highly effective in

transforming the way a company does business, meeting its unique business objectives while reducing operating costs.

In its highest value, this model is an ideal foundation for value-added components (such as industry-specific solutions) and end-to-services. A provider can capitalize on the synergies of the multi-client shared services outsourcing model, adding business process outsourcing (BPO) services for a higher value proposition.

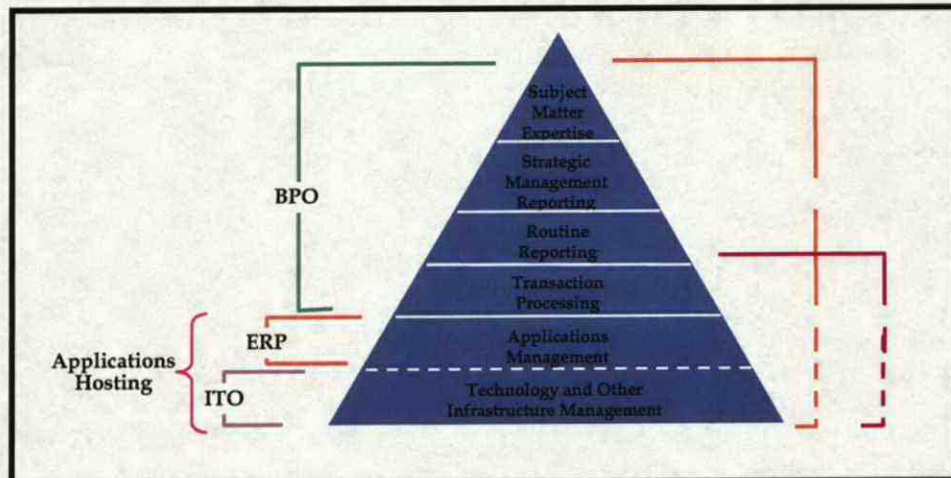
In an end-to-end services solution, the outsourcer provides:

- the business process,
- associated software application(s), and
- IT infrastructure supporting that process.

Deloitte & Touche, for example, provides BPO services in finance and accounting in its multi-client shared services model. The outsourcer also provides applications outsourcing services with industry-specific solutions for retail, law firm and real estate verticals.

Figure 2, below, illustrates the scope of strategic value from synergies of a BPO and applications hosting outsourced solution achievable in the multi-client shared services outsourcing model.

Figure 2



Moving beyond established strategies of outsourcing IT, leading organizations now depend on Business Process Outsourcing (BPO) solutions for their important, non-core business processes.

In BPO, an enterprise moves one or more important non-core functions to an external provider to operate, manage and "own" (control) the business process, people and supporting technology. It allows an enterprise to redirect internal resources to strategic activities, rather than transactional or administrative, back-office functions.

BPO bundles all the functions and their enabling technologies and staffing for a particular business process into a total solution that is more cost-effective and efficient than the client could perform internally.

Companies opting for a multi-client shared services outsourcing model enjoy all the benefits of BPO at a lower cost because of the shared platform.

Moreover, most companies spend the majority of their budget on basic system implementation and the process around running it, seldom allowing funds for value-add components.

Case Studies #7-9 illustrate benefits of quick implementation of a solution utilizing the synergies a multi-client shared services model and the provider's expertise in finance and accounting business processes.

CASE STUDY #7

A startup telecommunications company with more than 600 satellite cell sites and 30+ retail outlets needed an efficient and effective finance and accounting function.

The company selected Deloitte & Touche to design, build and operate a fully integrated back-office infrastructure; process flows and procedures for accounting, financial and management reporting functions; and an integrated systems platform for ERP, point-of-sale and customer care activities.

Because the cost-effective outsourced solution allowed the company's management team to focus on core competencies, the company was able to achieve an IPO that raised \$121 million and a high-yield bond offering that raised \$150 million.

CASE STUDY #8

"Company 8" sought to outsource all of the tax and accounting functions for its new subsidiary. Among other responsibilities, it wanted an outsourcer that would:

- Design an integrated platform of J.D. Edwards and CorpTax software;
- Process and mail an average of 1,000 refund checks per day;
- Coordinate and facilitate information extraction from the ERP system for the client's sales and use tax processing and for its property tax filings;
- Provide preparation review and filing of approximately 150 sales and use tax returns per month; and
- Prepare, review and file 8,000 property tax returns per year in 200 jurisdictions.

Because the provider, Deloitte & Touche, used a multi-client shared services model, was experienced in integrating the requested technologies and had a deep level of expertise in tax and accounting processes, it met the client's needs cost-effectively on a rapid deployment basis.

CASE STUDY #9

A spin-off from an energy organization, "Company 9" found itself in September 2000 delinquent in its finance and accounting functions back to June 2000. The company's Oracle environment for finance and accounting functions also needed an upgrade, and the company faced year-end audit requirements.

Company 9 turned over to its outsourcing service provider, Deloitte & Touche, control of the company's accounts payable, accounts receivable, billing, project accounting, timekeeping payroll and financial reporting functions. From September through December 2002, the provider achieved the following results:

- Addressed all accounting records within first 30 days and achieved up-to-date record keeping within 90 days;
- Achieved audit requirements and objectives, as prescribed;
- All Oracle functions brought up to date, including move to version 10.7; and
- Created necessary infrastructure, including process flows, policies and procedures (and communicated them to Company 9 employees).

Industry-Specific Solutions

For the most part, outsourcing services historically have been designed around leveraging a service provider's technology resources and its expertise in a particular business function. What is emerging today is a different breed of provider – one with expertise and offerings bundled into industry-specific solutions encompassing a variety of business functions and, thus, producing enterprise-wide value.

These providers utilize outsourcing models and IT platforms that ensure continual process improvement and provide more flexibility for customization.

A primary benefit of these BPO solutions is increased shareholder value.

Case Study #10, below, is an example of end-to-end services with an industry-specific solution in the not-for-profit industry. The client is a sophisticated organization seeking outcomes beyond saving money. Its objective is to deliver first-class services and information to its members, along with more cost-effective delivery of the services and information.

CASE STUDY #10

The buyer in this outsourcing relationship is a large, sophisticated labor union. It sought a provider to perform a comprehensive business process review for the purposes of (a) optimizing the organization's accounting infrastructure, and (b) implementing a co-sourcing solution within the accounting and financial management function.

Subsequent to the business process review, outsourcer Deloitte & Touche began operating a Phase-In Accounting Application system utilizing state-of-the-art software. The system involves accounts payable, accounts receivable, budget, employee benefits and payroll, tax administration and compliance, employee expense processing, monthly trial balance preparation and account reconciliation, along with financial statement and balance sheet preparation. The results achieved the union president's stated objective of being able to deliver higher-quality services to the union's constituency.

Another end-to-end service offering that capitalizes on a shared platform model is Deloitte & Touche Outsourcing's Real Estate practice. The outsourcing provider solves the costly inefficiencies of most real estate processes in its real estate vertical solution (illustrated in Case Study #11). The provider gives clients a single system encompassing all functions and brings together information that enterprises need to measure the effectiveness of their brokerage and facilities management providers.

CASE STUDY #11

When "Global Company 11" turned to outsourcing for its real estate leasing functions, it occupied approximately 18 million leased square feet in 1500 locations around the world. Administration of these leases had been outsourced to a variety of third-party commercial real estate brokers in various locations. This strategy had resulted in a scenario creating numerous problems, including:

- lack of access to information,
- challenges in occupancy management, and
- difficulty in managing costs when the size of the real estate portfolio changed.

The company decided to unbundle its lease administration process and analysis from its brokerage functions and outsource these functions to Deloitte & Touche. Among a variety of still-expanding roles of the outsourcer, transformation of the functions included:

- Auditing the client's information and consolidating it into a single system;
- Improving and streamlining processes to produce better and more timely information;
- Developing a new business approach to analyzing all potential leasing transactions.

Thus far, the services in this outsourcing initiative have produced three primary results.

1. The single centralized repository of lease information and improved processes resulted in first-year savings of more than \$3 million, due to better cash management, recovery of incorrectly billed lease obligations, collection of previously unmanaged sublease revenue and reduction in staffing.

2. The outsourcer's independent view of the company's assumptions, calculations and transaction methodologies now enhance the global company's ability to make strategic decisions that drive additional shareholder value.

3. Costs that previously were fixed have become variable, thus facilitating management of costs in a changing environment.

Tie and Run Scenario

Deloitte & Touche also offers a variation of its multi-client shared services outsourcing model, referred to as "tie and run."

In this model, the outsourcer provides BPO services, using the client's IT system through a connectivity tie-in to the client's network. The outsourcer's staff, however, performs the work in the outsourcer's data centers, rather than the client's premises, allowing the outsourcer to run the outsourced business process more cost-effectively. On average, this solution can be implemented in 30-90 days.

Transition

In an end-to-end services model, an enterprise obviously incurs a significant amount of necessary business process reengineering and change management to fit the outsourced delivery model. The expertise and consulting experience of the outsourcer in such front-end change activities is key to a successful transition.

Making a successful transition to the service provider's domain depends upon a number of critical success factors, including:

- Designing and defining new organizational roles and responsibilities;
- Reassigning and/or relocating the client's personnel into the new operating model;
- Planning and implementing an improved technology platform;
- Redesigning core processes around enabling technologies;
- Redesigning workflow and process inputs/outputs; and
- Instituting business process reengineering initiatives that produce lasting change.

A best practice approach to migrating a client's work to the service provider is an integrated approach that results in:

- Reduced learning curves,
- Accelerated timelines, and
- Cost savings.

Figure 3 below illustrates the four components of a BPO migration approach, using both consulting and operational skill sets.

Its services extend to various subject matter expertise. When the firm handles an outsourced accounting function, for example, its world-class experts are available for consultation if there are questions as to how to handle different financial reports.

The firm also works with its clients on leveraging synergies to create additional business solutions and sharing in future efficiency gains over the life of the outsourcing arrangement.

Figure 3



Transition consulting skill sets are involved in technology integration, process design development, training and project management.

Operation skill sets must include deep experience in the process functions, industry experience, continuous improvement and process orientation. Optimal outcomes require both transition and operational skills in an outsourcer that knows which buttons to push to make the operation more efficient and profitable.

With its own internal transition unit, Deloitte & Touche is unique in this marketplace. Its transition unit is responsible for solution implementation, strategies, planning, human capital, change management and enterprise security issues.

Choosing a Service Provider

Historically, the ASP hosting model has adequately served smaller companies that do not need a high level of flexibility. Mid-size companies, however, have more sophisticated, unique requirements and, thus, have been underserved by the one-to-many environment. The new multi-client shared services outsourcing model is experiencing especially rapid growth within the mid-size marketplace. Deloitte & Touche, for example, experienced a growth rate of 42% in its business in Europe, Latin America and the U.S. in 2001 and will surpass that rate in 2002.

Subject Matter Expertise

The popularity of this model, however, is not due just to the economies of scale and cost-effectiveness. Key to success in providing optimal value is the service provider's offerings and sophistication in BPO operations. The importance of

leveraging a provider's investment in developing expertise in its core businesses cannot be overestimated.

Within the marketplace are both large and niche providers that offer one-to-many utility models or hosted applications services (usually specific to a particular software vendor). While they usually are cost-effective, those providers are not in the business of providing BPO services. Providers that offer the synergy of a one-to-many environment with shared [BPO] services are rare.

The number of providers with this model that also possess the world-class subject matter expertise required by sophisticated mid-size and larger clients is even fewer. A sophisticated level of services in an outsourced tax process, for instance, would require a provider's ability to handle sales and use tax in 50 states, deal with property tax issues and complex reporting on a nationwide basis. Value-added services of tax consulting and financial restructuring would require a full-service firm.

Deloitte & Touche is an example of a provider with process expertise – and more than 100 years of experience – in finance and accounting functions. Its expertise is both actual (existing in the skills and experience of its personnel) and ascribed [the company's reputation existing in the minds of other people]. Its clients, therefore, can leverage both the provider's actual and ascribed expertise, enjoying the trusted brand of Deloitte & Touche as being responsible for their complex financial transactions.

Global Capability

Within the marketplace of mid-size companies or larger companies with small operations in several countries, strategies for achieving and sustaining

business growth are crucial. Both types of companies in this arena can wisely consider selecting only a provider with global capabilities.

Representative multi-client shared service centers of Deloitte & Touche

<u>U.S.</u>	<u>Europe</u>
San Antonio, Texas	Madrid, Spain
Chicago, Illinois	Brussels
Tulsa, Oklahoma	Belgium

Latin America
Sao Paulo, Brazil
Mexico City, Mexico
Santiago, Chile
Buenos Aires, Argentina

History of Success

The marketplace for this model is still young. Many companies are not sophisticated in selecting providers and negotiating outsourcing agreements for long-term strategies. "Interestingly enough, not all [providers] are created equal in applying leverage from a buyer's perspective."² Companies should select a provider that demonstrates willingness to utilize its leverage points in a way that will share the benefits with its clients. The multi-client shared services model fulfills this requirement.

"The first consideration ...is to identify sufficient potential sources of leverage that will allow the provision of quality services at a relative cost advantage. This is what will become the value to both parties."

Peter Bendor-Samuel

² Ibid. 81-82.

Because the shared platform model is more cost-effective than traditional outsourcing models for IT infrastructure, the contractual agreements for this model average term lengths of five to seven years, rather than 10. Even so, in an ongoing successful relationship, the buyer must be able to trust the provider, especially while the market matures and the model becomes more prevalent.

Finally, companies should seek an outsourcer that has a history of success, not only in its subject matter expertise, but also with its clients and in the marketplace.

Seek a provider that:

- is trustworthy,
- has high rates of customer satisfaction,
- has dedicated client service teams within the multi-client environment,
- employs best practices, and
- places emphasis and effort on building a collegial culture with its clients.