CORPORATE TRANSFORMATION SERVICES
FROM THE INSIDE OUT

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Corporate Transformations Often Force a Fundamental Rethink of Back Office Spending

A look at shared services

UBS and Credit Suisse, Switzerland's two largest banks, are reportedly in talks about combining functions such as settlements and compliance, after UBS CEO Sergio Ermotti said banks could no longer afford separate back office functions as profit margins shrink.

"It's very easy for the back end of a business to become disconnected from the reality of the front end," says A&M Managing Director Brian Smith. He gives the example of a clash over technology spending: the IT department wants to spend $20 million on a better website content management system, but the sales team has realized that sales are flowing through from Amazon, not the company's own site.

As UBS has acknowledged, financial services companies face particular challenges getting their back office costs on the right scale: banks are being disrupted by fintech companies, squeezed by regulators and consumers, and they're operating in a low interest rate environment – all putting profit under pressure.

Back office spending made in the past is now becoming irrelevant, such as call centers built offshore or in cheaper locations at home, as well as huge data centers. Now companies can buy all the server capacity they need from Microsoft Azure or Amazon Web Services more cheaply, and telephone services can be provided by robots responding to voice commands.

"All these changes have profound implications for shared services," says Smith. "The middle-management jobs such as data center managers, which were immune from earlier changes that moved lower-skilled jobs offshore, are not needed. That becomes a formidable obstacle to change."

To address this challenge with clients seeking to put shared services on a sustainable footing, A&M takes a step back and disconnects its view from decisions made in the past. Instead, it starts with a clean sheet of paper and asks: **"How would we do it if we were starting today?"**

"At the CEO and Board level, there's an understanding that to be sustainable, the revenue generating parts of the business have to dictate what's in place to support them," says Smith.

"We come in and ask 'what can we do?' We're not focused on just the traditional little cuts and subtractions here and there, but rather fundamentally changing from the ground up. We ask questions like 'Given the future business model, what is a sustainable level for shared services?' and 'Should functions be automated, outsourced, moved offshore or onshore?' We determine what can be achieved and how we're going to get you to where you need to be."

When a company goes through transformational change, the most obvious effects are on the customer-facing parts of the business, including product changes or new payment terms. Maybe an entire division might suddenly be owned by someone else. However, some of the most effective changes for driving profitability occur in the back office.

"As margins get squeezed in the front of a business, the ability to pay for all the supporting infrastructure gets squeezed, and in order to sustain itself the company needs to cut back on its shared services by a significant amount," says Smith.

The costs of service functions such as finance and accounting, human resources, technology, facilities management and corporate governance are usually shared across all divisions. However, with established business models being disrupted by technological change, any function that is only indirectly linked to the company's products and services is a candidate for automation or to be supplied by an external, shared, utility provider.

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