Spinning-out your Shared Service Centre

Leveraging your Shared Service Centre as a springboard to a profitable outsourcing relationship

Outsourcing initiatives are a well recognised driver in reducing costs and increasing service levels while enabling a business to focus on its core functions. They also act as a catalyst for broader transformation and send a change signal to the rest of the organisation.

Traditional approaches to outsourcing focus on procuring services from an external partner, where the transfer of assets – people, systems, intellectual property and often buildings – is a secondary consideration. However, as large Shared Service Centres (SSCs) created by companies have now begun to reach maturity and as service providers look to scale up through acquisitions, these centres are beginning to offer a credible asset that can be spun-out.

At Deloitte, our belief is that a window of opportunity has opened up for companies with mature SSCs to monetise them by selling them to an outsourcing service provider. This generates immediate cash, and through the partnership with the service provider further savings and service improvements can be realised with minimal disruption to 'business as usual'.

Utilising your SSC as a springboard to a profitable outsourcing partnership

Leading organisations are seizing the opportunity to outsource their SSC operations to service providers in a move to realise additional up-front value from their SSC investment. Such relationships reduce costs further, and through investment in the SSC by the outsourcing partner, they take service to a new level.

New skills and capabilities of the outsourcing partner are accessed while, crucially for some businesses, disruption is minimised.

The organisation is then well placed to execute a business strategy focusing on its core business while still providing a high quality of back office services through partnering with an external provider. Very often, the partnership may be structured initially as a Joint Venture, with the relationship then leading on to become a more traditional outsourcing arrangement.

Outsourcing grows, with spin-outs providing the catalyst

The recent pressures on the economy, triggered by the housing-led credit crunch, are forcing companies to renew their focus on their core business, while contemplating an outsourcing partnership to provide non-core activities. As a result the Business Process Outsourcing (BPO) market continues to grow rapidly, particularly in the EMEA region. Over the last nine months, and for the first time, the EMEA region represents more than half of worldwide outsourcing contract volumes.

These pressures, coupled with the availability of mature SSCs as an internal asset, have led to a new appetite for a spin-out proposition.

Service providers, both onshore and offshore, are racing to bulk up capabilities as the BPO market moves out of its adolescent phase.

This imperative is shaped by the need to acquire new capabilities, enter new geographies, even out the impact of currency depreciation, or simply to bulk up their contracted volumes. These vendors are seeking out mature SSCs or internal businesses that can be spun-out.

Sales of a mature SSC can be seen as strategy for transformational service improvement

The sale of a mature SSC to a service provider is sometimes viewed as a logical next step to realising further value in the operation of a shared service environment. The sale presents a cost reduction opportunity to release cash and the ability to transform a fixed cost into a variable. It also provides a business model for the SSC that encourages ongoing investment in the technology and operations of the SSC, now in the form of a long term outsourcing relationship.

The sale also presents an opportunity to increase the critical mass of back office operations, increase staff retention through greater career opportunities for staff in the SSC and improve service levels through the creation of an external service culture and contractual metrics. Often, staff retention and future career development opportunities are the biggest operational issues facing a mature SSC, especially if they are in a low cost location. By providing the SSC operations and personnel with a new home in a service provider organisation, the organisation is better equipped to retain talent.

A sale to service providers also minimises any disruption to the business in the transition period, should the service provider take over and continue to provide BPO services. However, extra effort is usually required to change the culture within the SSC from that of serving internal colleagues, to a culture of providing an external service to clients.

Vendors are willing partners to scale up their capabilities

The acquisition of an SSC by a service provider provides an opportunity to rapidly scale up a business's capabilities in a growing and competitive market – with a geographic, process or language scope. It also provides the service provider with a long term annuity based relationship.

As the BPO market matures, service providers are moving to the provision of complex business processes, such as Knowledge Process Outsourcing, Financial Services Outsourcing and other business processes. In such relationships where knowledge transfer is difficult and the capabilities being transferred are known intimately by the client organisation, innovative operational and commercial structures are required. Very often such partnerships require an outsourcing and governance framework which resembles a spin-out or Joint Venture to promote the full success of the arrangement.

The growth of offshore BPO players is another catalyst. An onshore service provider is seeking near shore or offshore presence, while for an offshore service provider an onshore presence can bolster its sales and market position. The acquisition of a complementary SSC centre reduces risks inherent in building a "greenfield" centre. It also gives life to the operational centre through an existing service relationship.

Recent deals have proven the model

The spin-out proposition is in its second generation. First generation spin-outs created stand-alone businesses which are credible vendors in their own right. WNS, a spin-out of British Airways' back office in India, and Genpact, a spin-out of General Electric's back office in Asia, are two prominent examples of first generation spin-outs.

In recent times, second generation spin-outs have started to occur where mature SSCs were divested by the parent company. In the process the companies achieved their strategic objective of focusing the organisation on its core business activities, while helping to realise value beyond a traditional outsourcing relationship. In addition to a standard long term outsourcing contract, the acquiring vendors paid up-front cash value for the assets, Intellectual Property and people acquired as a result of the transaction. Philips' spin-out of its Polish, Indian and Thai centre to Infosys in 2006 and Unilever's spin-out of its Latin American SSCs to CapGemini are in the vanguard of second generation spin-outs.

Case study overview – Unilever's Latin America spin-out

Unilever recently sold two of its Latin American SSCs to a service provider. This will bring the company's Latin America operations in line with their global strategy to outsource non-core finance activities, thereby allowing them to focus on becoming a business partner. These centres were operated by 450 employees and provided services to 20 business units across Latin America in three different languages.

Apart from enabling the company to focus on their core finance activities, Unilever's sale of these businesses also resulted in a large cash flow injection. The company received an upfront cash payment for their centres from the vendor that included a significant amount for goodwill.

The sale also meant minimum disruption to the business with a seamless transition between sourcing the service provider and the service provider providing BPO services. The ongoing outsourcing contract was structured to deliver enhanced value and the flexibility they required to match the strategic objectives of the group.

As a leader in Outsourcing Advisory Services our dedicated team advised Unilever in this divestment, from the time a vendor was selected to the time that a contract for sale of centre, as well as a long term outsourcing contract, was negotiated with the service provider.

Contact us

If you would like to discuss any of the above issues with our Outsourcing Advisory Services team, please do not hesitate to get in touch.

Peter Moller
Partner
020 7007 3973
pmoller@deloitte.co.uk

Mandeep Gill
Senior Manager
020 7303 8971
mandgill@deloitte.co.uk

Deloitte's capabilities

Our Outsourcing Advisory Services (OAS) team supports similar engagements to the one outlined above.
We provide a structured approach to assisting clients in assessing the viability of an SSC spin-out. To start with, we assess the value potential of such an arrangement, the scope and structure of the outsource, which leads up to a market assessment and service provider engagement for spinning-out the asset. Following this essential due diligence activity, a detailed contractual negotiation is required for selling the asset as well as entering into a long term contract with the service provider acquiring the SSC.

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