Next-generation service delivery model
Expanding the value-creation menu for consumer packaged goods organizations

There is good news for businesses: Signs of an economic recovery continue. However, unlike most other recoveries, this one is being fueled by corporate and government spending—not by consumers. Much like the great depression of the last century, it appears this great recession may have altered consumer spending for the foreseeable future. Conspicuous consumption is out, frugality and saving are in.

New recipes needed

This seismic shift in consumption has potentially shattering impacts for consumer packaged goods (CPG) companies that have benefited from consumers' hunger for more and the willingness to pay for it. As evidenced by continuing low retail price inflation, despite increases in commodity prices, CPG companies are no longer able to just pass along cost increases. In the face of declining margins coupled with increases in energy costs and benefit programs, doing nothing is not an option. In fact, doing nothing could result in companies literally growing themselves out of business.

Many companies that made labor cuts during the downturn have limited rehiring during the recovery. While productivity gains can help profitability in the short term, at some point, without dramatic changes in the way work is done, additional headcount will be needed to support growth. While some companies may accept the inevitable, others view the post-economic crisis environment as an opportunity to make fundamental changes in work processes that will enable them to again grow profitably, despite the challenges.

Today's special: Centers of Expertise

Centers of Expertise (CoE), sometimes known as "knowledge centers," are providing many companies with the ability to leverage talent across the organization to reduce costs as well as improve quality and service. To be sure, cutting costs while simultaneously raising service and quality sounds very similar to cutting taxes while increasing spending and reducing the deficit: too good to be true. The truth is that it may not only be possible, but that no artificial ingredients—meaning undiscovered methods or expensive technologies—may be required.

Similar to transactional shared service centers (SSCs),COEs consolidate work among fewer people and reduce job fragmentation to enable companies to do more with less. But unlike SSCs, which add value by reducing the cost to provide a unit of work (e.g., pay an invoice, reconcile an account, and/or hire an employee), COEs add value by leveraging capabilities instead of necessarily cutting cost per work unit.

One way to think about how COEs add value is to consider how a company might defend itself in a lawsuit. Hopefully, no one would apply the transactional SSC's "reduce the cost per unit" philosophy, and hire the legal firm with the cheapest attorneys on a rate-per-hour basis. This approach would likely result in companies losing cases and making significant payments as a consequence. Rather, companies would strive to find legal representation whose attorneys have the knowledge and experience to win the case, whatever their rate-per-hour cost. In this instance, as with CoEs, spending more actually reduces total costs by leveraging knowledge and experience.

Moving beyond the traditional recipe

Many executives are already aware of how an SSC delivery model has been used to consolidate back-office transactional activities in the Finance, HR, and IT functions. Increasingly, CPG companies are implementing SSC or CoE models for other functions—even those that may be "closer to the business." They are moving beyond the traditional functions to help drive growth, improve global effectiveness, and reduce costs—a core objective.

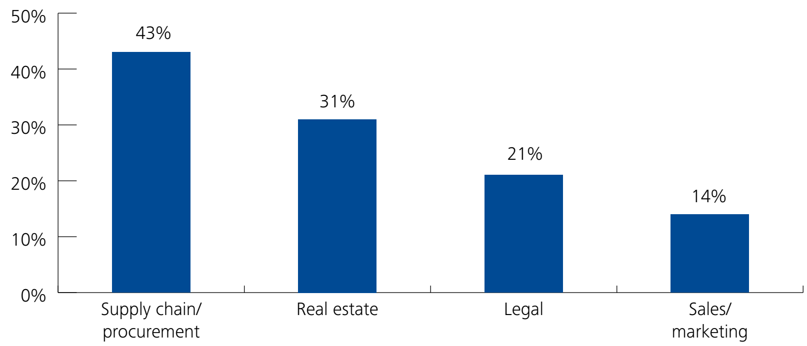
Broadening the scope of the shared services model can enable additional cost reductions, increased service levels, enhanced organizational control, and greater consistency. Once companies have effectively migrated transactional activities to shared services and realized the benefits of a shared services model, they often begin targeting

Figure 1. Ingredients: Comparison of the characteristics of a transactional SSC versus a CoE

	Shared service center (SSC)	Center of Expertise (CoE)
Overall philosophy	• Center of scale • Factory production model	• Advisory organization • Consultative service relationship
Nature of service	• Rules-based	• Judgment-based
Value proposition	• Lower costs, greater efficiency	• Improved business outcomes
Methods of delivering value	• Focus on optimization and efficiency • Asset consolidation (facilities and headcount) • Lower-cost location	• Access to otherwise unavailable capabilities • Higher-level skills and experience • Extensive "bench" of skilled resources • Focus on enhancing skills and on leveraging knowledge, skills, and experience to initiate leading practices and resolve problems
Location drivers	• Cost is a primary consideration	• Cost is a secondary consideration
Labor considerations	• Availability is a primary consideration	• Capability is a primary consideration; cost is secondary
Organizational structure and governance	• Service levels, customer service procedures, and costs are negotiated directly with internal customers • Self-contained organization	• Service levels and customer service procedures are negotiated between functional heads and internal customers • Usually reports to function
Metrics	• Quantitative • Output-based (e.g., error rate, turnaround time)	• Evaluative • Outcome-based (e.g., degree to which service expectations of internal customers are met)
Customer relationship management provided by	• Account managers, service desk, and/or call center	• The actual professionals who do the work
Demand for service	• Continuous	• Episodic/event-driven

processes "higher up" the value chain for a shared approach. According to Deloitte's 2011 Global Shared Services Survey, these include functions such as supply chain/procurement, sales/marketing, real estate/facilities, and legal, to name a few (see Figure 2).[1] Many of these functions have historically been considered more "core" to the business.

Figure 2. Percentage of CPG companies using a shared delivery model for non-traditional processes



Source: Analysis of data from Deloitte's 2011 Global Shared Services Survey

Examples of processes CPG companies have moved to a shared delivery model include the following:

Supply chain/procurement
- Create and issue purchase orders (POs)/process PO change orders
- Conduct spend analysis*
- Manage and assess supplier performance*
- Price management
- Logistics management

Sales/marketing
- Customer service/customer relationship management#
- Order management
- Customer database management
- Pricing
- Marketing campaign management
- Sales forecasting
- Customer analytics*

Real estate
- Manage assets/leases
- Manage transaction processing for real estate
- Manage and report financial performance
- Manage facilities
- Develop and manage real estate portfolio*

Legal
- Contracting support*
- Legal/statutory/external reporting
- Paralegal support
- Manage external counsel*
- Legal research and analysis*^
- Intellectual property*^
- Litigation support^
- Community affairs*

Chef's selections (targets for CPGs)

CPG companies have compelling reasons to expand the existing menu of shared service dishes. Given the extensive distribution and manufacturing networks and methods typical of CPG companies, we think there are many "second generation" transactional and knowledge-based functions that would benefit from the application of a shared model.

CPG companies should consider targeting those areas of their organization capable of yielding the most significant return on their change investment. This means identifying the "low-hanging fruit"—functions most easily converted to an SSC or CoE that will increase efficiency and reduce costs—versus functions requiring a greater investment of time, resources, and ingredients. It is also suggested that CPGs apply a shared services model first to those functions—typically transactional functions—that are least likely to trigger stakeholder resistance. An effective implementation may lead to a growing recognition of the many benefits to be gained from applying a shared model to functions closer to the "back office"; this, in turn, may reduce resistance to applying a shared model to more customer-facing, closer-to-the-core-of-the-business functions.

1 "Executive Summary of Deloitte's 2011 Global Shared Services Survey Results," Deloitte Development LLC, 2011. Available online at http://www.deloitte.com/view/en_US/us/Services/additional-services/Service-Delivery-Transformation/31334fc2655ce210VgnVCM3000001c56f00aRCRD.htm.

* Denotes most planned future implementations for a shared delivery organization in Deloitte's 2011 Global Shared Services Survey

^ Denotes most commonly outsourced process in Deloitte's 2011 Global Shared Services Survey

\# Denotes most common process in a shared delivery model in Deloitte's 2011 Global Shared Services Survey

Below are several functions common to many CPG companies that present an especially compelling case for a shared delivery approach:

Procurement

While many companies have implemented programs to improve sourcing to reduce costs, these changes are often met with resistance when run as a department rather than as a service organization. Complaints of inferior goods or delays in obtaining items often result in rogue spending and the erosion of savings over time. By embracing the customer service approach of SSCs and COEs, companies are able to improve compliance, which generally translates into increased savings.

A CoE can do more than reduce the cost of acquisitions. At one CPG company, for instance, the job of locating repair parts for truck fleet maintenance was moved from the depot to the CoE. There were significant concerns that the move would result in trucks being taken out of service for extended periods while waiting for parts from the lowest bidder identified by the CoE. In fact, the CoE did a better job of sourcing most maintenance items and was able to exercise the clout of the company's scale when scarce parts were needed. The CoE was able to contact many more suppliers and had greater insight into which suppliers were likely to have the needed parts. As a result, the CoE was able to get the trucks back on the road more quickly than local depot staff attempting to locate needed parts.

Additionally, parts purchase analysis enabled the CoE to determine that some parts were being replaced prematurely, often while still under original equipment manufacturer (OEM) warranty. The CoE filed the claims necessary to recover the costs of repairs already made and obtained agreement from the vendor that the remaining trucks would receive future replacement parts in a timely manner, which would help reduce down time going forward. These results would not have been possible without the aggregated data and talent of the CoE, which enabled the analysis necessary to spot opportunities to both cut costs and improve customer service.

Customer service

Everyone has experienced examples of horrendous customer service at some time. Unfortunately, often these experiences occur during calls made for the sole purpose of getting an issue resolved. Long wait times, multiple handoffs that require a customer to explain the issue to multiple people, and getting disconnected prior to resolution of the issue are sure ways to lose a customer and have the customer share their experience with possibly millions of others via social media outlets.

Centralizing customer service as a cost-cutting measure is often the root cause behind poor service, because many companies think of a call center as if it were an SSC for a transactional activity: Increasing calls per agent cuts the cost per call. However, if organized as a CoE, a consolidated customer service capability becomes a true service opportunity.

Creating positive customer experiences begins with understanding what customers want. Do they want information—"When will my order be delivered?"—or service—"My order is missing components; what are you going to do to fix this?" Customer loyalty is often earned when a company is able to effectively address a problem. A customer service CoE enables a company to keep the focus on the *service* in customer service as well as impact costs, rather than cut costs at the risk of impacting service.

Logistics

Several areas within logistics could benefit from a shared approach. Among these are planning and allocations, in which an enterprise-wide perspective can mitigate fluctuations in manufacturing demand. The logistics function for distribution and transportation activities can also be consolidated. Implementation of a CoE for management of a CPG company's enterprise-wide network of warehouses enables more effective management, improved efficiency, and reduced waste. At one company, for example, prior to the formation of an equipment management CoE, each division handled its backhaul operations individually, which often resulted in empty trailers passing each other on the highway. Only by managing the equipment through a CoE was the company able to efficiently identify the preferred location to perform its backhaul operations, which allowed it to both cut costs and reduce its carbon footprint.

Supply chain

Use of a shared model for indirect sourcing enables CPG companies to apply the same strategic sourcing principles they currently apply to their direct spend. This can deliver benefits through improved vendor rationalization and enterprise-wide purchasing power for better leverage in pricing negotiations. Packaging activities also present an opportunity for consolidation. Having a single organization handling the activities related to packaging, including design and documentation, improves consistency across the enterprise.

At one multi-division CPG company, individual divisions' requirements often resulted in additional supplier service costs. By centralizing the supply chain, conflicting purchase order requirements were indentified, discussed with suppliers on a gain-share basis, and standardized, resulting in lower costs for the company as well as lower service costs for the suppliers.

Marketing

Centralizing activities such as basic market research enables CPG companies to do more with less by aggregating an often fragmented activity. Consider, for instance, the possibility that ten brand managers working independently of each other may each spend (say) $10,000 for the same macroeconomic trend information—a total cost of $100,000. Alternatively, a marketing CoE with access to the same $100,000 could purchase the information once and disseminate it as needed, leaving the remainder available for additional analytics and access to more in-depth analyses across the company.

At one organization, performing a price strategy analysis was beyond the reach of the individual brand managers, as no single brand manager had the budget to hire economists or pay for a study. After establishing a pricing CoE, the company was able to hire economists and statisticians who analyzed demand elasticity, pricing, and promotion, and made recommendations accordingly. With the insights from this effort, the company generated a half-point increase in margins—the direct result of concentrating demand and obtaining the required service through a CoE.

Given its perceived proximity to the core of the business, CPG companies may encounter more resistance to efforts to bring a shared approach to marketing activities than for the other areas described here. Nonetheless, CPG companies may find that the potential benefits make it worthwhile to explore the opportunities for a shared approach presented by marketing activities including rebate and coupon management, campaign and advertising management, consumer analytics and channel management, and pricing and competitive analysis, as examples.

Figure 3. Chef's selections for expanding the value-creation menu at CPGs

Procurement
- Request for proposal (RFP) processing
- Vendor management/performance tracking
- Contract management

Customer service
- Inquiry/fulfillment
- Outbound solicitation/customer contact
- Interaction reporting/analytics—shared information

Logistics
- Planning/allocations
- Distribution/transportation
- Facilities/warehouse management

Supply chain
- Indirect sourcing
- Vendor rationalization
- Packaging (documentation and design)

Marketing
- Supplier/retailer negotiation/clearance (rebates, coupons, etc.)
- Campaign/advertising/agency management
- Pricing/competitive analysis
- Consumer analytics/channel management

Chef's secret for success

Careful planning, a strategic approach, and attention to the challenges that can arise are essential to realizing the value of a shared services model. The experience gained from creating SSCs for traditional transactional functions enable companies to be aware of and more effectively address the challenges to extending the transactional shared services model to non-traditional functions. Among the lessons learned:

- Culture is the primary driver of an effective implementation.
- The magnitude of change, as well as the fear of loss of control and the resulting level of resistance, will increase in direct proportion to the proximity of the function being shared to customer-facing, core-to-the-business functions.
- Understanding the dollar cost of the investment and amount of time necessary to realize savings enables better management of expectations.
- Implementation effectiveness is directly correlated to the amount, quality, and consistency of leadership support, communication, and approach.
- Sticking to executive decisions is essential to keeping the organization focused and on course.

Many of the challenges companies frequently encounter when attempting to implement a transactional SSC can be compounded when implementing a CoE. The following are factors to consider:

- A CoE effort can run aground simply due to a lack of stakeholder awareness. A shared services model can be used for certain knowledge-based functions. Stakeholder education and communication are essential, especially for leadership in areas that may be affected.
- The business case for a shared approach should be clearly articulated and communicated to the stakeholders of the functions under consideration. Lacking a clear explanation, executives may remain skeptical of the value proposition and resistant to the effort, especially where closer-to-the-core-of-the-business functions are involved.
- Executives should be aware that the initial investment required to create the infrastructure for a CoE may occasionally be greater than either doing nothing or the investment required to implement a transactional SSC.
- Talent attraction, retention, and engagement are critical concerns for the highly qualified personnel typically employed at a CoE, as the cost of turnover and the opportunity cost of unfilled positions are correspondingly greater than they are for the personnel of a transactional SSC.
- Given the nature of certain knowledge-based and analytical services, defining clear, measurable performance metrics and developing service-level agreements can be a challenge. It is vital to evaluate each function correctly, carefully define the goals of the CoE, establish appropriate customer expectations, and enable meaningful customer feedback by applying performance measurement tools to the CoE's service quality and processes.
- Certain knowledge-based functions require the use of highly sensitive data instrumental to a company's competitive advantage. Protecting this data is vital to any CoE that touches it, especially if any element of the deliverable is offshored or outsourced.

Factors to consider when implementing a CoE

- Stakeholder awareness
- Business case
- Initial investment
- Talent management
- Performance measurement
- Data security

The new menu

Given the many factors influencing current marketplace appetites—an uneven economic recovery with a slow growth environment, relentless global competition, new technologies, and changing consumer behavior—CPGs should use as many methods as possible to reduce their costs and increase their efficiency. A shared model applied to both transactional and knowledge-based functions can provide the means to help CPGs succeed in a challenging environment. Despite the challenges, the value of this new menu is clear: Consumer packaged goods companies that effectively apply a shared model to appropriate functions across the entire scope of their organization will be better positioned to outperform those that do not—now and in the future.

Authors

Annette Tirabasso
Principal
Deloitte Consulting LLP
+1 404 631 2385
atirabasso@deloitte.com

Richard Sarkissian
Principal
Deloitte Consulting LLP
+1 973 602 5959
rsarkissian@deloitte.com

Jeff Hall
Senior Manager
Deloitte Consulting LLP
+1 704 887 2092
jlhall@deloitte.com

Contributors

Mark Klender
Principal
Deloitte Consulting LLP
+1 415 783 4087
maklender@deloitte.com

Ian Wollman
Senior Manager
Deloitte Consulting LLP
+1 216 589 3792
iwollman@deloitte.com

Evelyn Ackermann
Manager
Deloitte Consulting LLP
+1 212 313 2954
eackermann@deloitte.com

Noemie Tilghman
Senior Manager
Deloitte Consulting LLP
+1 713 982 2134
ntilghman@deloitte.com

David Wright
Director
Deloitte MCS Ltd
+44 20 7007 8156
dwright@deloitte.co.uk