

Achieving cost efficiencies through Global Finance and Accounting Outsourcing



Executive Summary

Delta is one of the world's largest passenger airlines with operations in over 65 countries, 80,000 employees and \$32 billion in annual revenues. This global, U.S. based airline transports passengers and cargo both domestically and internationally and also provides maintenance, repair and overhaul services to other aviation and airline customers.

In a challenging, recessionary market, with global selling, general & administrative costs (SG&A) weighing down profits, the company needed to take decisive action in order to improve profitability. Additionally, Delta had recently acquired Northwest Airlines whose strong presence in the Pacific region and its legacy ERP systems was also prompting the need to standardize and integrate the Northwest Airlines acquisition. Delta needed to considerably reduce SG&A costs and efficiently standardize and integrate Northwest Airlines business and so it looked to outsource elements of its finance and accounting (F&A) operations as a way to quickly contribute to cost savings and standardization.

As used in this document, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Delta asked Deloitte to perform a strategic assessment of Delta's Finance and Accounting function, which comprised over 700 employees. Upon completion of the strategic assessment, which provided Delta with an executable strategy for outsourcing its F&A function, Delta asked

Deloitte to be its advisor as it continued on its journey to implement the outsourcing plan. Deloitte won the work due to previous advisory work for Delta, credibility as a trusted advisor for highly complex projects and knowledge of the outsourcing market.

Over a ten month period, Deloitte deployed a team of skilled practitioners from both the U.S. and India, with deep experience in the outsourcing market. Deloitte helped Delta identify cost saving opportunities through the recommended outsourcing strategies and implementation.

Client Issue

Faced with a challenging economic environment, Delta sought to reduce its SG&A costs and integrate and standardize Northwest Airlines finance and accounting systems and operations. The company required experienced advisory in identifying cost saving opportunities across its finance function of over 700 people.

- Delta was concerned about several potential risks in implementing this type of plan. Delta wanted to help determine if the company received fair value from an outsourcing transaction
- Delta needed an unbiased view and to gather internal consensus in identifying the processes that can be effectively outsourced and to consolidate the global processes to a single service provider

Following a competitive RFP process, Delta selected Deloitte because of its knowledge and independence within the outsourcing market, experience in Business Process Outsourcing and Shared Services and ability to support the company in managing the overall process, structuring the deal and negotiating the contract.

Deloitte was involved in the following three phases of the project: Strategic Assessment Phase, Operating Model and RFP Development and Vendor Evaluation and Contract Negotiation. The following finance and accounting functions (both domestically and internationally) were evaluated for both outsourcing potential and process readiness:

- Accounts Payable (AP)
- Accounts Receivable (AR)
- Revenue Accounting
- Cargo accounting
- Fuel Accounting
- Bank Reconciliations

Approach

In this project, it was essential to hit the ground running. Delta already had a contract with a Business Process Outsourcing (BPO) Services Provider in the EMEA region and though Delta was highly satisfied with the service provided, the contract still needed to be reviewed given

the expansion of scope of services. From Deloitte's experience on similar projects, the leading way to tackle this problem was to bring in a mix of knowledge, experience and established processes in the outsourcing space.

The Project Team

Deloitte established a team of consultants, both from the U.S. and India, who worked closely together providing support and advice based on their specific areas of experience:

- Deloitte contributed skilled project leadership in global F&A Business Process Outsourcing and global financial shared services
- Team members from India had extensive experience in the outsourcing space, including having worked with leading outsourcing service providers
- Deloitte's rich experience in the F&A outsourcing space brought to the table pricing and functional benchmarks, knowledge of the service provider landscape and tools and processes to help facilitate and accelerate the outsourcing initiative

Methodology

A multi-phased approach was used to evaluate the finance functions and implement the offshoring opportunity which included Phases 1–3 of Deloitte's Outsourcing Lifecycle Methodology:



Phase 1: Strategic Assessment Phase

- Examined Delta's Business Model and Strategy and developed a Current State Assessment
- Developed a Total Cost of Ownership (TCO) Business Case
- Defined Strategy and Roadmap for the Future State Delivery Model

Phase 2: Operating Model and RFP Development

- Developed Functional/Operating Model Plans
- Updated and refined Business Case
- Determined Retained Organization and Communication Strategy
- Developed and issued an RFI and subsequently a detailed functional RFP to the shortlisted vendors
- Developed a vendor evaluation Framework

Phase 3: Vendor Evaluation and Contract Negotiation

- Managed the RFP process, evaluated vendor responses, conducted vendor site visits and down-selected vendor

- Developed SOW/Contract Documents and assisted Delta in Final Contract Negotiation through to signing

Challenges and Success Factors

Challenge #1 — Consolidating the finance operations globally:

Delta's finance operations were primarily U.S. centric with a small base of resources in Asia/Pacific and Latin America. Some fragmented U.S. finance activities were outsourced to near and offshore providers. Additionally, the European operations had already been consolidated and successfully outsourced. The challenge was to consolidate the finance resources globally and standardize various Finance and Accounting processes.

Challenge #2 — Selection of single service provider:

Delta needed a single global BPO service provider to deliver the identified Finance and Accounting activities that were ready to be consolidated and outsourced. The challenge

was negotiating a more favorable contract with the current EMEA BPO provider while simultaneously evaluating several other vendors.

Challenge #3 — Senior Management Buy-In within Delta

In order to address Delta management's concerns over potential risk factors, Deloitte developed an alternate proposal whereby the traditional F&A functions such as Accounts Payable, Accounts Receivables, Bank Reconciliations would be outsourced in Wave 1 and more complex processes like Passenger Revenue Accounting would be considered for a second phase. This approach aligned with Delta's risk tolerance and a revised RFP was issued to the vendors. This helped encourage complete buy-in and support from the senior leadership, which was ultimately the key to the success of the engagement.

Success Factors

The project successfully met many of Delta's objectives, by:

- Identifying positive annual savings on the in-scope functions from a combination of outsourcing, renegotiated current contract and process efficiencies through consolidation and standardization
- Developing a go forward contracting strategy

Lessons Learned

Key lessons learned during this project included the importance of:

- Gaining senior executive buy-in from kickoff and appropriately communicating the risks and benefits of the initiative
- Having face to face meetings with many of the process subject matter specialists and also visiting locations/geographies to carefully assess current state
- Issuing an RFI to the larger vendor community and shortlisting them to a more focused group with relevant Airline experience and knowledge and then issuing a detailed RFP
- Developing RFP annexes and functional statements of work as close as possible to the final contract, which helped in reducing work and turn-around time during the contract development stages
- Conducting site visits at vendor locations to have a feel of day-to-day operations and assess the available knowledge and skills



Working Relationship

This was a complex project that required a high degree of interaction between Deloitte, Delta and other stakeholders.

A good working relationship was a key to achieving the objectives.

Deloitte invested considerable thought in understanding Delta's objectives so the applicable experience was in the appropriate place at the targeted time, allowing Delta to move forward in a structured, rigorous and professional way.

The strong, collaborative relationship with Deloitte supporting Delta throughout the process enabled the team to work effectively.

Contacts

Marc Mancher

Deloitte Consulting LLP
Stamford, CT

Tel: +1 571 882 6290

jmancher@deloitte.com

Matthew Bender

Deloitte Consulting LLP
Los Angeles, CA

Tel: +1 213 553 1605

mbender@deloitte.com

Simon Tarsh

Deloitte Consulting LLP
New York, NY
Tel: +1 212 313 1983
starsh@deloitte.com

Sonal Bhagia

Deloitte Consulting LLP
New York, NY
Tel: +1 212 313 1679
sbhagia@deloitte.com

Stephen Dunn

Deloitte Consulting LLP
Dallas, TX
Tel: +1 214 840 1390
stdunn@deloitte.com

Pankaj Bansi

Deloitte Consulting LLP
Dallas, TX
Tel: +1 214 840 1418
pbansi@deloitte.com

This publication contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates and related entities shall not be responsible for any loss sustained by any person who relies on this publication.